

# EXHIBIT 147



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# **Analysis of Pharmacy Dispensing Fees for the Indiana Medicaid Program**

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Prepared for the  
Indiana Office of Medicaid Policy and Planning  
Indianapolis, Indiana

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# Table of Contents

## CHAPTER 1

<b>EXECUTIVE SUMMARY .....</b>	<b>4</b>
INTRODUCTION.....	4
SUMMARY OF FINDINGS.....	5

## CHAPTER 2

<b>ANALYSIS OF PHARMACY REIMBURSEMENT RATES .....</b>	<b>9</b>
PHARMACY REIMBURSEMENT OVERVIEW .....	9
STATE MEDICAID PHARMACY REIMBURSEMENT .....	11
PRESCRIPTION CHARGES SURVEY .....	13
CONCLUSIONS .....	16

## CHAPTER 3

<b>DISPENSING COST SURVEY .....</b>	<b>17</b>
METHODOLOGY OF THE DISPENSING COST SURVEY .....	17
COST FINDING PROCEDURES .....	19
DISPENSING COST ANALYSIS AND FINDINGS .....	26
COMPONENTS OF DISPENSING COST .....	30
ANALYSIS OF PHARMACY NET MARGINS .....	32
CONCLUSIONS .....	33

## EXHIBITS

- Exhibit 1 Indiana Medicaid Pharmacy Cost Report
- Exhibit 2 Indiana Medicaid Pharmacy Cost Report Instructions
- Exhibit 3 Initial Letter from the Indiana Office of Medicaid Policy and Planning Regarding Pharmacy Cost Survey
- Exhibit 4 Initial Letter from Myers and Stauffer for Dispensing Cost Survey: Independent and Chain
- Exhibit 5 Prescription Charges Survey - Commercial Insurance Third Party Prescriptions (Single Source Products Only)
- Exhibit 6 Construction and Application of Owner Pharmacist Salary Limits
- Exhibit 7 Table of Inflation Factors for Dispensing Cost Survey
- Exhibit 8 Histogram of Pharmacy Dispensing Cost

Exhibit 9 Pharmacy Dispensing Cost Survey Data - Statistical Summary

Exhibit 10 Charts Relating to Pharmacy Total Prescription Volume:

A: Histogram of Pharmacy Total Prescription Volume

B: Scatter-Plot of Relationship Between Dispensing Cost per Prescription and  
Total Prescription Volume

Exhibit 11 Chart of Components of Dispensing Cost per Prescription

Exhibit 12 Pharmacy Profit Analysis: Percent Margin on Prescription Dispensing Activities

Exhibit 13 Pharmacy Profit Analysis: Net Margin per Prescription

Chapter

1

## Executive Summary

### Introduction

The Indiana Office of Medicaid Policy and Planning (OMPP) is required by IC 12-15-31.1 to conduct a survey of pharmacy providers every two years to assess the appropriate level of dispensing fees to be paid to providers for prescribed drugs. Under this statute, OMPP shall conduct a survey of pharmacy providers to assess the appropriate level of dispensing fees to be paid to providers for prescribed drugs, including an evaluation of dispensing fees in other states and the policies of the federal Centers for Medicare and Medicaid Services. The dispensing fee shall be evaluated based upon the operational data, professional services data, overhead data and profit data relating to the costs of pharmacy operation.

Myers and Stauffer was engaged by OMPP to perform a study to assist with an assessment of the appropriate level of pharmacy dispensing fees as required by the statute. Several study components provided data to perform the assessment of pharmacy dispensing fees.

One aspect of the study was an evaluation of the pharmacy dispensing fees currently being accepted by pharmacies in Indiana and other states. Myers and Stauffer compared the pharmacy dispensing fee of the Indiana Medicaid program to the dispensing fees of other state Medicaid programs. Additionally, Myers and Stauffer performed a survey of prescription charges of pharmacies participating in the Indiana Medicaid program. Data from the prescription charge survey allowed for an analysis of dispensing fees paid by private third party payers to pharmacies in the state of Indiana. Results from the Indiana data were also compared to national studies of dispensing fees accepted by pharmacies.

Another component of the study was an evaluation of the cost of dispensing prescription medications to Medicaid recipients in the state of Indiana. The dispensing cost study performed by Myers and Stauffer considered operational data, professional services data, overhead data and profit data relating to the costs of pharmacy operation as required by the statute. The study used a cost survey instrument similar to that used by Myers and Stauffer in Medicaid pharmacy engagements in several other states. There were 1,362 pharmacy

providers enrolled in the Medicaid program with paid claims between July 1, 2005 and June 30, 2006. All 1,362 of these pharmacies were requested to submit survey information for this study. All dispensing cost surveys submitted were subject to desk review procedures, however only 474 pharmacies filed cost surveys that could be included in this analysis.<sup>1</sup> Data from these surveys was used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were tabulated and subjected to statistical analysis.

## Summary of Findings

The significant findings of the study are as follows:

### **Comparison of Pharmacy Reimbursement Rates**

State Medicaid agencies use a wide variety of reimbursement rates in their pharmacy programs. Pharmacy dispensing fees in these programs vary from under \$2 to over \$11. At \$4.90, the dispensing fee for Indiana Medicaid falls at approximately the 82<sup>nd</sup> percentile of all state Medicaid dispensing fees (i.e., 82% of states pay equal to or less than Indiana Medicaid). Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17% to a high of AWP minus 5%. At AWP minus 16.0%, the ingredient reimbursement for brand name drug products under Indiana Medicaid falls at approximately the 8<sup>th</sup> percentile of all state ingredient reimbursement rates for brand name drug products (i.e., 8% of states pay equal to or less than Indiana Medicaid).

Based on the prescription charges survey, private third party payers contracted with Indiana pharmacies have reimbursement rates with an estimated average dispensing fee of \$1.91 and average ingredient reimbursement of AWP minus 15.6% for single source products. Reimbursement rates from Medicaid managed care organizations were similar with an estimated average dispensing fee of \$1.86 and average ingredient reimbursement of AWP minus 15.0% for single source products. **Myers and Stauffer finds the dispensing fees paid by third party private payers and Medicaid managed care organizations are substantially less than those paid by OMPP for fee-for-service Medicaid.**

The prevalent acceptance of private payer dispensing fees of approximately \$2 or less is further supported by other national research. One survey, published in 2006, reported average dispensing fees to retail pharmacies for brand name drugs of \$1.89 and average ingredient reimbursement of AWP minus 15.3%.<sup>2</sup> National studies also indicate that in recent years, private payer pharmacy

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<sup>1</sup> Some pharmacies submitted surveys that were incomplete or contained data errors that precluded their use in this study. Pharmacies that submitted incomplete or erroneous survey information were contacted for clarification. However, not all pharmacies responded to these requests for additional information, and those surveys were not included in the final analysis.

<sup>2</sup> See *The Prescription Drug Benefit Cost and Plan Design Survey Report*, 2006 Edition, Pharmacy Benefits Management Institute, Inc. and Takeda Pharmaceuticals North America, Inc. Survey data is based on data collected in fall 2005. Values cited are for the Midwest region.

dispensing fees have declined and ingredient reimbursement rates have declined relative to AWP.

### **Dispensing Cost**

Per the survey of pharmacy dispensing cost for pharmacies participating in the Indiana Medicaid program, the statewide average (mean) cost of dispensing, weighted by Medicaid volume, was \$9.66 per prescription. This figure excludes 15 specialty pharmacies, which exhibited a significantly different cost structure.

**Table 1.1 Dispensing Cost<sup>A</sup> Per Prescription – Excluding Specialty Pharmacies**

Pharmacies Included in Analysis <sup>B</sup>	459
Unweighted Average (Mean)	\$11.03
Weighted Average (Mean) <sup>C</sup>	\$9.66
Unweighted Median	\$9.31
Weighted Median <sup>C</sup>	\$8.82

<sup>A</sup> Inflated to common point of June 30, 2006 (midpoint of a fiscal year ending December 31, 2006).

<sup>B</sup> Excludes 15 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion, or blood factor prescriptions constituted 10% or more of their volume of prescription sales dollars.

<sup>C</sup> Weighted by Medicaid volume.

The survey of pharmacy dispensing cost was designed to capture historical costs incurred by pharmacies participating in the Indiana Medicaid program. The survey results do not infer any assessment of the efficiency of operations of one pharmacy versus another. However, based on the variability of dispensing cost that we observed above and below the reported mean and median measurements some pharmacies are able to provide services more efficiently than others.

Myers and Stauffer notes that the pharmacy industry in Indiana has also participated in another recent study of pharmacy dispensing cost that was sponsored by the Coalition for Community Pharmacy Action. This study was published in January 2007. Among other measurements, the study reports a mean “overall cost of dispensing per prescription” of \$9.80 based on analysis of data from 577 pharmacies in the state of Indiana.<sup>3</sup> This study was based on a

<sup>3</sup> See *National Study to Determine the Cost of Dispensing Prescriptions in Community Retail Pharmacies*, prepared by Grant Thornton LLP for the Coalition for Community Pharmacy Action, January 2007. Other notable measurements from the study specific to Indiana pharmacies include the following means: “overall cost of dispensing per pharmacy” of \$11.38; “Medicaid cost of dispensing per prescription” of \$10.61; and “Medicaid cost of dispensing per pharmacy” of \$12.65.

survey that measured cost from a standard fiscal reporting period of March 1, 2006 to August 31, 2006.

### **Observations**

OMPP is required by IC 12-15-31.1 "to assess the *appropriate* level of dispensing fees to be paid to providers for prescribed drugs" (emphasis added). There are several factors that should be considered in determining appropriate Medicaid pharmacy dispensing fees. Perhaps the most important factor for OMPP to consider is the need to maintain sufficient patient access to pharmacy services for Medicaid recipients throughout the state. An analysis of market dynamics, including the payment rates accepted by pharmacies from other payers, should be a key component of the assessment of Medicaid dispensing fees. Other relevant factors include dispensing and drug acquisition costs incurred by pharmacies.

Medicaid pharmacy programs must be aware of the issue of accessibility of services and ensure that reimbursement levels are adequate to provide Medicaid recipients with reasonable levels of access to pharmacy services.<sup>4</sup> It is noteworthy that current levels of participation of Indiana pharmacies in the Medicaid program compared to the number of licensed pharmacies in the state indicate that as many as 93% of Indiana pharmacies are actively participating in the fee-for-service Medicaid program. This high level of participation suggests that under the current Medicaid dispensing fee level there are not any problems regarding access to services, despite recent reductions by OMPP in the ingredient reimbursement rate to pharmacies.

Although detailed pharmacy participation rates for the Medicaid managed care programs were not available to Myers and Stauffer, information from OMPP managed care administrative staff indicates that lack of access to pharmacy services is not an issue for Medicaid recipients in managed care programs. This is the case even though pharmacy dispensing fees from managed care organizations (\$2.00) are substantially less than the dispensing fee of the Medicaid fee-for-service pharmacy benefit (\$4.90).

These factors relating to accessibility of services suggest that the current pharmacy dispensing fee of \$4.90 paid by OMPP, in conjunction with current levels of ingredient reimbursement, is apparently more than adequate to ensure sufficient access to pharmacy services. ***The current acceptance by Indiana pharmacies of dispensing fees from Medicaid managed care organizations***

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<sup>4</sup> Federal statutes at 42 USC 1396a(a)(30)(A) (and corresponding regulations at 42 CFR 447.204) state that the Medicaid program must "assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that such care and services are available to the general population in the geographic area."



***of approximately \$2 suggests that access to services would not be limited by a fee-for-service dispensing fee less than the current level of \$4.90.***

The prescription charges survey data suggests that the current competitive environment of retail pharmacy would, in fact, support dispensing fees less than the dispensing fees currently paid by OMPP. The current Indiana Medicaid dispensing fee of \$4.90 is substantially higher than dispensing fees commonly accepted by pharmacies from private third party payers, even though ingredient reimbursement from private third party payers is at similar levels to Indiana Medicaid ingredient reimbursement.

An evaluation of the appropriate level of Medicaid pharmacy dispensing and ingredient reimbursement rates should also consider findings related to dispensing cost in conjunction with an analysis of the cost pharmacies incur to acquire prescription medications. A detailed analysis of pharmacy acquisition cost was not a component of the study, but industry trends regarding the relationship of pharmacy acquisition cost and published prices such as the Average Wholesale Price (AWP) have been documented.<sup>5</sup> ***Although the current pharmacy dispensing fee is lower than the average cost of dispensing prescriptions, Myers and Stauffer finds that pharmacies, on the average, realize positive net margins on Medicaid prescriptions due to current margins on drug ingredient cost.***

Several factors that are relevant to the assessment of an appropriate dispensing fee for the Medicaid pharmacy program are addressed in this report. The most important issue is to ensure adequate access to pharmacy services. Currently, participation rates for both the Medicaid fee-for-service and managed care programs indicate that access to pharmacy services is not a problem even at dispensing fee levels significantly below that of the current fee-for-service pharmacy benefit. Furthermore, market analysis indicates that dispensing fees accepted from other third-party payers and Medicaid managed care organizations are significantly less than those paid by OMPP for fee-for-service Medicaid. Finally, at the current levels of dispensing and ingredient reimbursement for fee-for-service Medicaid, pharmacies are realizing positive margins, on the average, for Medicaid prescriptions.

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<sup>5</sup> Office of Inspector General (OIG), "Medicaid Pharmacy – Actual Acquisition Cost of Brand Name Prescription Drug Products", Report Nos. A-06-00-00023, August 2001

## Chapter

## 2

**Analysis of Pharmacy Reimbursement Rates**

The Indiana Office of Medicaid Policy and Planning (OMPP) is required by IC 12-15-31.1 to conduct a survey of pharmacy providers every two years to assess the appropriate level of dispensing fees to be paid to providers for prescribed drugs. Per IC 12-15-31.1-2, OMPP must perform an evaluation of the dispensing fees of other state Medicaid programs and the policies of the Centers for Medicare and Medicaid Services (CMS). Furthermore, per IC 12-15-31.1-3 the dispensing fee shall be evaluated based upon the operational data, professional services data, overhead data and profit data relating to the costs of pharmacy operation.

Information relating to dispensing fees paid by other state Medicaid programs, as well as private payers, is included in this chapter. Chapter 3 includes discussion of a survey of operational data, professional services data, overhead data and profit data relating to the costs of pharmacy operation.

**Pharmacy Reimbursement Overview**

The Indiana Medicaid program includes a benefit for prescription drugs. This program allows recipients access to many commonly prescribed drugs. The two primary components for Medicaid reimbursement of pharmaceuticals are the allowable drug ingredient amount, plus a dispensing fee. The dispensing, or professional, fee is paid to pharmacies to cover their overhead and labor costs. CMS policy on state Medicaid pharmacy dispensing fees include federal regulations at 42 CFR 447.331-333 that require states to establish a reasonable dispensing fee and to document their pharmacy reimbursement methodology in their state plan.

The current Medicaid maximum dispensing fee reimbursed is \$4.90. Ingredient reimbursement is based on an “estimated acquisition cost” (EAC) equal to AWP minus 16.0% for brand name drug products, and at least AWP minus 20% for multi-source drug products (with limitations). Specifically, in accordance with 405 IAC 5-24-4, the Indiana Medicaid program reimburses pharmacy providers for

covered legend drugs at the lowest of the following:

- (1) The estimated acquisition cost (EAC) of the drug as of the date of dispensing, plus any applicable Medicaid dispensing fee.
- (2) The maximum allowable cost (MAC) of the drug as determined by the Centers for Medicare & Medicaid Services (formerly known as the Health Care Financing Administration) under 42 CFR 447.332 as of the date of dispensing, plus any applicable Medicaid dispensing fee.
- (3) The state maximum allowable cost (MAC) of the drug as determined by the office as of the date of dispensing, plus any applicable Medicaid dispensing fee.
- (4) The provider's submitted charge, representing the provider's usual and customary charge for the drug, as of the date of dispensing.

For purposes of determining Medicaid reimbursement, the Indiana Medicaid EAC is:

- (1) for brand name drugs, eighty-four percent (84%); or
  - (2) for generic drugs, eighty percent (80%);
- of the average wholesale price for each National Drug Code according to the Medicaid contractor's drug database file.

MAC prices set by CMS are also known as Federal Upper Limits (FUL). Through December 2006, FUL prices were based on 150% of the lowest wholesale price listed in any of the various published compendia of cost information of drugs. Recent changes enacted by the Deficit Reduction Act of 2005 (DRA) will modify the methodology for calculating FUL prices. Per the DRA, beginning January 1, 2007, FUL prices are required to be based on 250% of the "average manufacturer price" (AMP).<sup>6</sup> The AMP was previously defined by Section 1927 of the Social Security Act as part of the Medicaid drug rebate program. Significant concern has existed among stakeholders in the pharmacy industry regarding the precise manner in which CMS will calculate FUL prices under the new statutory guidelines.<sup>7</sup> To date, revised FUL prices have not been made publicly available. Proposed regulations from CMS relating to the calculation of FUL prices based on the AMP were published in the *Federal Register* on December 22, 2006.

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<sup>6</sup> See Public Law 109-171, Section 6001(a)(2). Implementation of the AMP-based FUL prices did not begin on January 1, 2007 as required. CMS currently estimates implementation of AMP-based FUL prices in the spring of 2007.

<sup>7</sup> See, for example, Office of the Inspector General report A-06-06-00063, "Determining Average Manufacturer Prices for Prescription Drugs Under the Deficit Reduction Act of 2005", May 2006 and Government Accountability Office report GAO-07-239R, "Estimated 2007 Federal Upper Limits for Reimbursement Compared with Retail Pharmacy Acquisition Costs", December 2006.

## State Medicaid Pharmacy Reimbursement

Dispensing fees for Medicaid programs have typically been based on an analysis of costs incurred by pharmacies within the state as well as other market factors. Dispensing fees vary from state to state. An overview of Medicaid dispensing fees (and ingredient reimbursement) is included in the following table.

**Table 2.1 State Medicaid Pharmacy Reimbursement Rates<sup>8</sup>**

State	Dispensing Fee	Ingredient Reimbursement
Alabama	\$5.40	AWP - 10% WAC + 9.2%
Alaska	3.45 to 11.46	AWP - 5%
Arizona	\$2.00	AWP - 15%
Arkansas	\$5.51	B: AWP - 14% G: AWP - 20%
California	\$7.25 (\$8.00 LTC)	AWP - 17%
Colorado	\$4.00; \$1.89 for Institutions	B: AWP - 13.5% G: AWP - 35%
Connecticut	\$3.60	B: AWP - 14% G: AWP - 40%
Delaware	\$3.65	AWP - 14% AWP - 16% (LTC)
DC	\$4.50	AWP - 10%
Florida	\$4.23	AWP - 15.45% WAC+5.75%
Georgia	\$4.33 to \$4.63 (+\$0.50 for generics)	AWP - 11%
Hawaii	\$4.67	AWP - 10.5%
Idaho	\$4.94 (\$5.54 for unit dose)	AWP - 12%
Illinois	B: \$3.40 G: \$4.60	B: AWP -12% G: AWP - 25%
Indiana	\$4.90	B: AWP -16% G: AWP - 20%
Iowa	\$4.26	AWP - 12%
Kansas	\$3.40	B: AWP -13% G: AWP - 27%
Kentucky	\$4.51	AWP - 12%
Louisiana	\$5.77	AWP - 13.5% (AWP - 15% for chains)
Maine	\$3.35	AWP - 15%
Maryland	B: \$2.69 G: \$3.69 (+\$1.00 for LTC)	AWP - 12% WAC + 8%
Massachusetts	\$3.50 - 5.00	WAC + 5%
Michigan	\$2.50 (\$2.75 LTC)	AWP - 13.5% (1-4 stores) AWP - 15.1% (5+ stores)
Minnesota	3.65 (+0.50 unit dose)	AWP - 12%
Mississippi	\$3.91	B: (AWP - 12%/WAC + 9%) G: AWP - 25%
Missouri	\$4.09	AWP - 10.43% WAC + 10%
Montana	\$4.70	AWP - 15%

<sup>8</sup> Source: CMS, "Medicaid Prescription Reimbursement Information by State - Qtr Ending September 2006". See [http://www.cms.hhs.gov/MedicaidDrugRebateProgram/08\\_MdPresReimInfo.asp](http://www.cms.hhs.gov/MedicaidDrugRebateProgram/08_MdPresReimInfo.asp).

State	Dispensing Fee	Ingredient Reimbursement
Nebraska	\$3.27 to \$5.00	AWP - 11%
Nevada	\$4.76	AWP - 15%
New Hampshire	\$1.75	AWP - 16%
New Jersey	\$3.73	AWP - 12.5%
New Mexico	\$3.65	AWP - 14%
New York	B:\$3.50 G:\$4.50	B: AWP -12.75% G: AWP - 16.5%
North Carolina	B:\$4.00 G:\$5.60	AWP - 10%
North Dakota	B:\$4.60 G:\$5.60	AWP - 10% WAC +12.5%
Ohio	\$3.70	AWP - 14.4% WAC + 7%
Oklahoma	\$4.15	AWP - 12.0%
Oregon	Retail: \$3.50 Inst:\$3.91	AWP - 15% (retail) AWP - 11% (institutional)
Pennsylvania	\$4.00	AWP - 15% WAC + 6%
Rhode Island	\$3.40 LTC: \$2.85	WAC +5%
South Carolina	\$4.05 LTC: \$3.15	AWP - 10%
South Dakota	\$4.75 (\$5.55 for unit dose)	AWP - 10.5%
Tennessee	\$2.50	AWP - 13%
Texas	\$5.14	AWP - 15% WAC + 12%
Utah	\$3.90 (urban) \$4.40 (rural)	AWP - 15%
Vermont	\$4.75	AWP - 11.9%
Virginia	\$4.00 (\$5.00 for unit dose)	AWP - 10.25%
Washington	\$4.20 to \$5.20	B: AWP - 14% G: AWP - 50%
West Virginia	B:\$2.50 G:\$5.30	B: AWP - 15% G: AWP - 30%
Wisconsin	\$4.88	AWP - 11.25%
Wyoming	\$5.00	AWP - 11%

Pharmacy dispensing fees for state Medicaid pharmacy programs vary from under \$2 to over \$11. Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17%, to a high of AWP minus 5%. As can be noted in Table 2.1, the dispensing fee and ingredient reimbursement formulas used in various states are often based on multiple numeric values, using different factors for different drug products. In order to evaluate how Indiana Medicaid pharmacy reimbursement policies compare to other state Medicaid programs, we estimated a single payment rate for each state's dispensing fee, and estimated a single ingredient rate for brand name drug products. With these conversions, we developed statistics presenting average reimbursement rates for all states, which are shown in Table 2.2.

**Table 2.2 Average State Medicaid Pharmacy Reimbursement – Brand Name Drugs**

Pharmacy Reimbursement Component	Mean	Median
Dispensing Fee	\$4.25	\$4.15
Ingredient Reimbursement (Brand Name Drugs)	AWP – 12.9%	AWP – 13.0%

The dispensing fee for Indiana Medicaid falls at approximately the 82<sup>nd</sup> percentile of all state Medicaid dispensing fees (i.e., 82% of states pay equal to or less than Indiana Medicaid). The ingredient reimbursement for brand name drug products under Indiana Medicaid falls at approximately the 8<sup>th</sup> percentile of all state ingredient reimbursement rates for brand name drug products (i.e., 8% of states pay equal to or less than Indiana Medicaid).

## Prescription Charges Survey

### Methodology

Myers and Stauffer performed a survey of prescription drug charges that pharmacies that participate in the Indiana Medicaid program charged to customers of all payer types (e.g., Medicaid, private insurance, cash paying customers). This survey of charges was performed in conjunction with the survey of pharmacy dispensing cost. Further detail on the survey of pharmacy dispensing cost is presented in Chapter 3. The survey of prescription charges provided useful data that we used to analyze payments received from cash customers and third party payers other than Medicaid.

A prescription charges survey was included as an attachment to the dispensing cost survey mailed to each pharmacy (see Exhibits 1 and 2). The survey instrument requested that each pharmacy list the first 50 new prescriptions filled on or immediately following a sampled date, excluding compounded prescriptions. The information requested for each prescription was the prescription number, the name and the strength of the drug, the National Drug Code (NDC) number, the quantity filled, the actual selling price of the prescription, and a code indicating whether the prescription was paid for by a cash-paying customer or a third party reimbursement plan. The actual selling price is the amount actually received for the prescription, net of all discounts.

The prescription charges survey was utilized for the following purposes:

- First, it was used as a test of the pharmacy's reported prescription sales and/or number of prescriptions dispensed.
- Second, it was used to estimate average reimbursement received by the pharmacy from third party reimbursement plans as well as cash-paying customers, since the payer type for each prescription was noted by the pharmacy on the survey form.

Not all pharmacies filed a usable prescription charge survey and not all pharmacies provided exactly 50 prescriptions; however, a sufficient number of surveys were available. After data entry and editing, the selling price data from approximately 23,000 prescriptions (consisting of single source and multi-source drugs) was analyzed.

### Analysis and Findings

The data in the prescription charges survey made it possible to estimate the reimbursement paid by other third party payers and cash paying customers. In order to derive the typical reimbursement from other payers, a bivariate statistical regression technique was used. This technique allowed us to use the reimbursement reported on the survey, and the known Average Wholesale Price of the drug to estimate both the ingredient and dispensing reimbursement components of other third party payers and cash paying customers.

This technique is shown in Exhibit 5. In this example, commercial third party prescriptions for single source products were priced at the applicable AWP price and subjected to analytical procedures to identify statistical outliers. The ensuing data was plotted using the AWP price and the amount of reimbursement to the pharmacy. A linear regression was performed on the data resulting in the equation of a line that best fits the data points. **The *slope* of the regression line, 0.844, provides an estimate for the average ingredient reimbursement for single source drugs for commercial third party payers: AWP minus 15.6%. The *y-intercept* of the regression line, \$1.91, serves as an estimate for the average dispensing fee.**

As the graph indicates, there is some variability in the actual reimbursement both above and below the regression line. This is measured by the equation's *standard error of the estimate*: \$1.28. The correlation coefficient (i.e., the  $R^2$  value) for this regression is relatively high, indicating a strong linear relationship in the data. Results of this example and other subsets of the charge survey data are summarized in Table 2.3.



**Table 2.3 Regression Analysis of Reimbursement by Pharmaceutical Payers for Single Source Drug Products**

Payer Type	Number of Prescriptions in the Sample	Estimated Ingredient Reimb. % of AWP	Estimated Dispensing Fee	Standard Error of the Estimate
Cash	280	85.3%	\$8.53	\$5.80
Commercial Insurance (i.e. PBM)	3,326	84.4%	\$1.91	\$1.28
Medicaid Fee For Service	268	84.0%	\$4.86	\$0.61
Medicaid Managed Care	203	85.0%	\$1.86	\$0.32
Medicare Part D	1,082	84.2%	\$2.40	\$2.47

To validate the bivariate methodology, we tested the process using data from prescriptions dispensed to Indiana Medicaid recipients, a payer with known reimbursement rates. A comparison of Medicaid's fee for service rates provides confirmation that the bivariate methodology produces meaningful results. This is confirmed since the estimated dispensing fee (\$4.86) and estimated discount below AWP ( $100\% - 84.0\% = 16.0\%$ ), are very close to the actual dispensing fee (\$4.90), and actual discount below AWP (16.0%) for single source drug products. These slight variations are likely based on minor data reporting issues.

The survey shows that commercial third party payers are reimbursing pharmacies at lower dispensing fees than are currently paid by Indiana Medicaid.

A similar analysis on multi-source products revealed higher variation of reimbursement. Accordingly, estimates of the average reimbursement for these types of products are less conclusive. This can be attributed to the greater variation of actual acquisition cost by item versus the AWP for multi-source products. The data suggests that more varied reimbursement systems (e.g., alternative MAC<sup>9</sup> pricing schedules) are used by many third party payers for multi-source products.

Pharmacy reimbursement rates paid by private third party payers (typically through networks operated by pharmaceutical benefits managers, or PBMs) have been researched and reported in other publications. One survey, published in 2005, reported average dispensing fees to retail pharmacies for brand name

<sup>9</sup> "Maximum Allowable Cost"



drugs of \$1.89 and average ingredient reimbursement of AWP minus 15.3%.<sup>10</sup> Private payer pharmacy reimbursement rates have declined in recent years with respect to both the dispensing and ingredient components (relative to AWP) of reimbursement.

## Conclusions

State Medicaid agencies use a wide variety of reimbursement rates in their pharmacy programs. Pharmacy dispensing fees in these programs vary from under \$2 to over \$11. At \$4.90, the dispensing fee for Indiana Medicaid falls at approximately the 82<sup>nd</sup> percentile of all state Medicaid dispensing fees (i.e., 82% of states pay equal to or less than Indiana Medicaid). Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17% to a high of AWP minus 5%. At AWP minus 16.0%, the ingredient reimbursement for brand name drug products under Indiana Medicaid falls at approximately the 8<sup>th</sup> percentile of all state ingredient reimbursement rates for brand name drug products (i.e., 8% of states pay equal to or less than Indiana Medicaid).

Based on the prescription charges survey, it appears that private third party payers are reimbursing for pharmaceuticals at rates less than those paid by Indiana Medicaid. Additionally, private third party plans pay dispensing fees that are less than dispensing costs, (see discussion of dispensing cost in Chapter 3). In fact, dispensing fees paid by most third party payers are set at levels well below the dispensing cost of most pharmacies. However, the data indicates that most third party prescription plans reimburse for ingredients at levels that exceed the pharmacy's cost for the ingredient.

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<sup>10</sup> See *The Prescription Drug Benefit Cost and Plan Design Survey Report*, 2006 Edition, Pharmacy Benefits Management Institute, Inc. and Takeda Pharmaceuticals North America, Inc. Survey data is based on data collected in fall 2005. Values cited are for the Midwest region.

## Chapter

## 3

**Dispensing Cost Survey**

OMPP is required by IC 12-15-31.1 to conduct a survey of pharmacy providers every two years to assess the level of dispensing fees to be paid to providers for prescribed drugs. Per IC 12-15-31.1-3 the dispensing fee shall be evaluated based upon the operational data, professional services data, overhead data and profit data relating to the costs of pharmacy operation.

In order to determine costs incurred to dispense pharmaceuticals to Medicaid recipients in the state of Indiana, Myers and Stauffer utilized a survey method consistent with the methodology of the previous surveys conducted by Myers and Stauffer in several states.

**Methodology of the Dispensing Cost Survey****Survey Distribution**

Myers and Stauffer obtained from IndianaAIM a list of pharmacy providers currently enrolled in the Medicaid program. There were 1,362 pharmacy providers enrolled in the Medicaid program with paid claims between July 1, 2005 and June 30, 2006. Approximately 70% of these stores were chain-affiliated, and 30% were independently owned stores. Independent providers were responsible for approximately 44% of the Medicaid drug volume. The average annual Medicaid drug volume was approximately 6,600 prescriptions. The median annual Medicaid drug volume was much less, roughly 2,700 prescriptions.<sup>11</sup>

Dispensing cost surveys were sent to 1,362 pharmacies with paid claims between July 1, 2005 and June 30, 2006. Survey forms were mailed in October 2006. Each pharmacy received a copy of the cost survey (Exhibit 1), a list of instructions (Exhibit 2), a letter of introduction from OMPP (Exhibit 3) and a letter of explanation from Myers and Stauffer (Exhibit 4).

<sup>11</sup> Substantial differences in the prescription volume of the Indiana Medicaid pharmacy program between time periods before 2006 and the time period of July 1, 2005 to June 30, 2006 can be partially attributed to the introduction of the Medicare Part D prescription benefit on January 1, 2006 and the subsequent removal of Medicaid prescription volume for dual-eligible beneficiaries.

Of the 1,362 surveyed pharmacies, 71 pharmacies were determined to be ineligible to participate (based on the returned surveys). Providers were deemed ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened, or changed ownership). A small number of pharmacies were noted as exempt due to other extenuating circumstances.

Concerted efforts to encourage participation were made to enhance the survey. An official letter explaining the purpose of the study was sent to the sampled pharmacy providers by OMPP. The cost survey forms and instructions and a letter of explanation from Myers and Stauffer offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey form if copies of financial statements and/or tax returns were supplied. A toll-free telephone number was listed on the survey form, and pharmacists were urged to call to resolve any questions they had concerning completion of the survey form. As indicated in Table 3.1, there were 474 pharmacies (out of 1,291 eligible pharmacies) that submitted a usable cost survey for this study, which is a response rate of 36.7%.

Not unexpectedly, some of the submitted cost surveys contained errors or did not include complete information necessary for full evaluation. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were some cases in which issues on the cost survey were not resolved in time for inclusion in the final analysis. Ultimately, 474 surveys were entered into a database and used in the analysis of dispensing costs.

The following table, 3.1, summarizes the cost survey response rate.

**Table 3.1 Pharmacies Responding to Cost Survey**

Type of Pharmacy	Total Medicaid Enrolled Pharmacies with Utilization <sup>A</sup>	Pharmacies Receiving Cost Surveys	Pharmacies Exempt from Filing	Eligible Pharmacies <sup>12</sup>	Usable Cost Surveys Received	Response Rate
Chain	958	958	12	946	309	32.7%
Independent	404	404	59	345	165	47.8%
<b>TOTAL</b>	<b>1,362</b>	<b>1,362</b>	<b>71</b>	<b>1,291</b>	<b>474</b>	<b>36.7%</b>

<sup>A</sup> Pharmacies enrolled in the Medicaid program with paid claims between July 1, 2005 and June 30, 2006

### Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., urban or rural), the sample of pharmacies was tested to determine if it was representative of the population of Medicaid provider pharmacies. Since the response rate of the sample pharmacies was less than 100 percent, the

<sup>12</sup> There were 817 eligible pharmacies that did not respond to the survey request with a usable survey.

possibility of bias in the responding sample should be considered. To measure the likelihood of this possible bias, chi square ( $\chi^2$ ) tests were performed.

Of the 474 usable cost surveys, 165 were from independent pharmacies and 309 were from chain pharmacies. There was a slight under representation of chain pharmacies (a response rate of 32.7% for chain pharmacies compared to a response rate of 47.8% for independent pharmacies). The decision of a chain organization to file or not file typically meant filing for all or none of the chain's pharmacies participating in the Indiana Medicaid program. There were several large pharmacy chains in Indiana that did not participate in the dispensing cost survey.

A  $\chi^2$  test was also performed with respect to the urban versus rural location of the pharmacy.<sup>13</sup> The results of this test indicated a slight under representation of rural pharmacies (a response rate of 41.0% for in-state urban pharmacies compared to a response rate of 29.7% for in-state rural pharmacies).

### **Receipt and Review Procedures**

For confidentiality purposes, each pharmacy was randomly assigned a four-digit identification number and each cost survey was carefully examined. This review identified incomplete cost surveys, and pharmacies submitting these cost surveys were sent a "Request for Additional Information" letter specifying the information necessary for completion or were contacted by telephone.

### **Cost Finding Procedures**

For all pharmacies, the basic formula used to calculate the average dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

$$\text{Average Dispensing Cost} = \frac{\text{Total (Allowable) Dispensing Related Cost}}{\text{Total Number of Prescriptions Dispensed}}$$

Determining the result of this equation becomes more complex since not all costs are strictly related to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of

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<sup>13</sup> For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag. Zip codes can overlap county lines; therefore the mapping of zip codes into counties and a corresponding MSA should be considered an approximation. Urban versus rural designations were determined for pharmacies located in the state of Indiana only.

prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical items. Some pharmacies are involved in the sale of durable medical equipment. The existence of these other lines of business necessitates that procedures be taken to isolate the costs involved in the prescription dispensing function of the pharmacy.

Cost finding is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid recipients. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid recipients.

Dispensing cost consists of two main components: overhead and labor. The cost finding rules employed to determine each of these components are described in the following sections.

### **Overhead Costs**

Overhead cost per prescription was calculated by summing the allocated overhead of each pharmacy and dividing this sum by the number of prescriptions dispensed. We allocated overhead expenses that were reported for the entire pharmacy to the prescription department based on one of the following allocation methods:

- Sales ratio – prescription sales divided by total sales.
- Area ratio – prescription department floor space (in square feet) divided by total floor space.
- All, or 100% – overhead costs that are entirely related to prescription functions.
- None, or 0% – overhead costs that are entirely related to non-prescription functions.

Overhead costs that were considered *entirely prescription-related* include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels (For many pharmacies the costs associated with prescription containers and labels is captured in their cost of goods. Subsequently, it was often the case that a pharmacy was unable to report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for

containers and labels. The allowance was set at the 90<sup>th</sup> percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: \$0.2430 per prescription).

- Certain other expenses that were separately identified on lines 27-29 of the cost survey (Exhibit 1).<sup>14</sup>

Overhead costs that were *not allocated as a prescription expense* include:

- Income taxes<sup>15</sup>
- Bad debts<sup>16</sup>
- Advertising<sup>17</sup>
- Charitable Contributions<sup>18</sup>

Certain costs reported on Lines 27, 28, and 29 of the cost survey were occasionally excluded. An example is freight expense, which usually relates only to nonprescription purchases or cost of goods sold.

The remaining expenses were assumed to be related to *both prescription and nonprescription sales*. Joint cost allocation is necessary to avoid understating or overstating the cost of filling a prescription.

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<sup>14</sup> "Other" expenses were analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100% related to dispensing cost or 0% (not allocated).

<sup>15</sup> Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation. Although a separate line was provided for the state income taxes of corporate filers, these costs were not included in this study as a prescription cost. This provides equal treatment to each pharmacy, regardless of the type of ownership.

<sup>16</sup> The exclusion of bad debts from the calculation of dispensing costs is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub.15-1, Section 304. "The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program." It is recognized that some bad debts may be the result of Medicaid co-payments that were not collected. However, it was not possible to isolate the amount of bad debts attributable to uncollected Medicaid co-payments from the survey data. Additionally, there may be programmatic policy reasons to exclude uncollected Medicaid co-payments from the calculation of the cost of dispensing. Inclusion of cost for uncollected co-payments in the dispensing fee might serve to remove incentives for pharmacies to collect Medicaid co-payments when applicable. Given that co-payments were established to bring about some measure of cost containment, it may not be in the best interest of a Medicaid pharmacy program to allow uncollected co-payments to essentially be recaptured in a pharmacy dispensing fee.

<sup>17</sup> The exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2. "Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."

<sup>18</sup> Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 19 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

Those overhead costs allocated on the *area ratio* (as previously defined) include:

- Depreciation
- Real estate taxes
- Rent <sup>19</sup>
- Repairs
- Utilities

The costs in these categories were considered a function of floor space.<sup>20</sup> The floor space ratio was increased by 50% from that reported on the original cost survey to allow for waiting and counseling areas for patients and prescription department office area. The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100% of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs allocated using the *sales ratio* include:

- Personal property taxes
- Other taxes
- Insurance
- Interest
- Accounting and legal fees
- Telephone and supplies
- Dues and publications

## **Labor Costs**

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations

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<sup>19</sup> The survey instrument included these special instructions for reporting rent: "Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only)." This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614: "Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."

<sup>20</sup> Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.



for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines 31-44) due to the different cost treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists (Lines 34-38 of the cost survey) were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to prescription labor costs than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula:<sup>21</sup>

$$\frac{(2)(\%Rx \text{ Time})}{(1 + (\%Rx \text{ Time}))}$$

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Lines 39-43) was based directly upon the percentage of time spent in the prescription department as indicated on the individual cost survey. For example, if the reported percentage of prescription time was 75 percent and total salaries were \$10,000, then the allocated prescription cost would be \$7,500.

### **Owner Compensation Issues**

The allocation of salaries, payroll taxes, and benefits of the owner pharmacists (Lines 31-33) was based upon the same modified percentage as that used for employee pharmacists. However, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owner pharmacists. Since compensation reported for owner pharmacists are not costs that have arisen from arm's length negotiations, they are not similar to other costs. A pharmacy owner has a different approach toward other expenses than toward his/her own salary. In fact, owners often pay themselves above the market costs of securing the services of an employee pharmacist. This excess effectively represents a withdrawal of business profits, not a cost of dispensing. Some owners may underpay themselves for business reasons, which would also misrepresent the true dispensing cost.

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<sup>21</sup> Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent:  $(2)(0.9)/(1+0.9) = 0.95$ . Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.



A factor considered in determining the allocation of owner's salaries was the variability in productivity. For example, one owner pharmacist may dispense 30,000 prescriptions per year while another may dispense 5,000. Those owner pharmacists who dispensed a greater number of prescriptions were allowed a higher salary than were owner pharmacists who dispensed a smaller number of prescriptions. Since the variance is not nearly as great with respect to employee pharmacists, the owner pharmacist's salary was subjected to limits based upon employee pharmacists' salaries per prescription.

### **Determining Owner Compensation Allowances**

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, a statistical regression technique was used. A bivariate plot shows the correlation between an independent (predictor) variable and a dependent (predicted) variable (Exhibit 6). The upper and lower limits on owner pharmacist salary were determined from a bivariate regression.<sup>22</sup> In order to accurately reflect the trend of decreasing marginal costs with increasing volume, a regression technique that fit the bivariate data to a logarithmic curve was used. The resulting regression equation to predict pharmacist labor cost at varying amounts of work performed is:

$$\text{Labor cost} = 39,353 \times \ln(\text{number of prescriptions dispensed})^{23} - 290,128$$

(where  $\ln$  represents the natural logarithm function)

This equation was used to establish limits for allocating owner pharmacist costs. There was variation in actual employee salaries both above and below this regression line. This variation is measured by the equation's *standard error of the estimate*, \$25,597. The standard error of the estimate was used to construct upper and lower limits of owner pharmacist labor cost:

$$\begin{aligned} \text{Upper Limit} &= 39,353 \times \ln(\text{number of prescriptions dispensed}) - 248,024 \\ \text{Lower Limit} &= 39,353 \times \ln(\text{number of prescriptions dispensed}) - 303,551 \end{aligned}$$

These two constraints effectively set upper and lower thresholds at approximately the 30<sup>th</sup> and 95<sup>th</sup> percentiles of volume adjusted employee salaries. An additional constraint is a \$146,579 maximum annual salary and a \$17,554 minimum salary. These amounts are set at the 30<sup>th</sup> and 95<sup>th</sup> percentile of volume adjusted employee salaries.

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<sup>22</sup> Employee pharmacist salary per prescription was used to set limitations on owner pharmacist salary estimates due to the "arm's length" nature and lack of variance in employee productivity compared with owner productivity.

<sup>23</sup> The number of prescriptions filled by the owner pharmacist was determined by multiplying the percent of owner-filled prescriptions (Lines 31-33 of the cost report) by the total number of prescriptions dispensed (Line a).

There is no reason to believe that managerial or clerical duties performed by the non-pharmacist owners were more valuable to the prescription dispensing function than for other functions. As with other owners, the amount shown for salaries, payroll taxes, and benefits was not a result of arm's length negotiations. Therefore, an upper limit of \$62,400 and a lower limit of \$17,554 were placed upon these labor costs. These limits were chosen based on experience in prior surveys. No adjustment was made to the percentage of prescription time factor for owner non-pharmacists (Lines 31-33 of the cost survey).

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy dispensing cost. Of the 474 pharmacies in the cost analysis, owner limits impacted 90 pharmacies, or 19%. Of these, 31 pharmacies had costs reduced as a result of application of these limits (on the basis that a portion of owner salary "cost" appeared to represent a withdrawal of profits from the business), and 59 pharmacies had costs increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.03 as a result of the owner salary limits.

### **Overall Labor Cost Constraints**

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total labor and the proportion of prescription sales to total sales. It is also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of prescription labor deemed unreasonable. For instance, the constraint would come into play for an operation that reported 75 percent pharmacy sales and 100 percent pharmacy labor (obviously, some labor must be devoted to generating the 25 percent nonprescription sales).

To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(\text{Sales Ratio})}{0.1 + (0.2)(\text{Sales Ratio})}$$

A sensitivity analysis of the labor cost restraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 474 pharmacies included in the dispensing cost

analysis, this limit was applied to 43 pharmacies. The final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.057 as a result of this limit.

## **Inflation Factors**

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2006 (specifically from the *midpoint* of the pharmacy's fiscal year to the *midpoint* of the common fiscal period, June 30, 2006). The midpoint and terminal month indices used were taken from the U. S. Government Consumer Price Index (CPI), Urban Consumer (Exhibit 7). The use of inflation factors is preferred in order for pharmacy cost data from various fiscal years to be compared uniformly.

## **Dispensing Cost Analysis and Findings**

The dispensing costs for all pharmacies in the sample are summarized in the following tables and paragraphs. Findings for all pharmacies in the sample are presented collectively, and additionally are presented for subsets of the sample based on pharmacy characteristics. There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the average, or mean, and the median. Findings are presented in the forms of means and medians, both raw and weighted.<sup>24</sup>

As is typically the case with dispensing cost surveys, statistical "outliers" are a common occurrence. These outlier pharmacies have dispensing costs that are

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<sup>24</sup> **Different Measures of Central Tendency:**

**Unweighted mean:** the arithmetic average cost for all pharmacies.

**Weighted mean:** the average cost of all prescriptions dispensed by pharmacies included in the sample, weighted by prescription volume. The resulting number is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. This approach, in effect, sums all costs in the sample and divides that sum by the total of all prescriptions in the sample. The weighting factor can be either total prescription volume or Medicaid prescription volume.

**Median:** the value that divides a set of observations (such as dispensing cost) in half. In the case of this survey, the median is the dispensing cost such that the cost of one half of the pharmacies in the set are less than or equal to the median and the dispensing costs of the other half are greater than or equal to the median.

**Weighted Median:** this is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more. Suppose, for example, that there were 1,000,000 Medicaid prescriptions dispensed by the pharmacies in the sample. If the pharmacies were arrayed in order of dispensing cost, the median weighted by Medicaid volume, is the dispensing cost of the pharmacy that dispensed the middle, or 500,000<sup>th</sup> prescription.

not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent what is thought of as “average” or normal in the common sense.

For all pharmacies that responded to the dispensing cost survey, findings are presented in Table 3.2.

**Table 3.2 Dispensing Cost Per Prescription – All Responding Pharmacies**

	Dispensing Cost
Unweighted Average (Mean)	\$15.36
Average (Mean) Weighted by Medicaid Volume	\$9.84
Unweighted Median	\$9.40
Median Weighted by Medicaid Volume	\$8.89

*(Dispensing Costs have been inflated to the common point of June 30, 2006)*

See Exhibit 8 for a histogram of the dispensing cost for all pharmacies in the sample. There was a large range between the highest and the lowest dispensing cost observed for pharmacies in the sample. However, the majority of pharmacies (87%) had dispensing costs between approximately \$6 and \$19.

Several pharmacies included in the cost analysis were identified as specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion, or blood factor prescriptions constituted 10% or more of their volume of prescription sales dollars. The analysis revealed significantly higher cost of dispensing associated with 15 pharmacies in the sample that provided significant levels of these services.<sup>25</sup>

The difference in dispensing costs that were observed for providers of specialty services compared to those pharmacies that did not offer these specialty services is summarized in Table 3.3.

<sup>25</sup> In every pharmacy dispensing study where information on intravenous solution, home infusion and blood factor product dispensing activity has been collected by Myers and Stauffer, such activity has been found to be associated with higher dispensing costs. Discussions with pharmacists providing these services indicate that the activities and costs involved in these specialty prescriptions are significantly different from the costs incurred by the traditional retail or institutional pharmacy. The reasons for this difference include:

- Costs of special equipment for mixing and storage of specialty products.
- Higher direct labor costs because most specialty prescriptions must be prepared in the pharmacy, whereas the manual activities to fill traditional prescription are mainly limited to counting pills (or vials, etc.) and printing and affixing the label.
- There is often inconsistency in the manner in which prescriptions are counted in specialty pharmacies. A specialty pharmacy may mix and deliver many “dispensings” of a daily intravenous, home infusion or blood factor product from a single prescription, counting it in their records as only one prescription. This results in dispensing costs being spread over a number of prescriptions that is smaller than if the pharmacy had counted each refill as an additional prescription.

This latter factor, in particular, can have a dramatic impact on increasing a pharmacy’s calculated cost per prescription.

**Table 3.3 Dispensing Cost Per Prescription - Specialty Versus Other Pharmacies**

Type of Pharmacy	Number of Pharmacies	Unweighted Average (Mean) Dispensing Cost	Standard Deviation
Specialty Pharmacies (e.g., I.V. or infusion)	15	\$148.00	\$186.77
Other Pharmacies	459	\$11.03	\$6.21

*(Dispensing Costs have been inflated to the common point of June 30, 2006)*

Pharmacies that dispense specialty prescriptions as a significant part of their business often have dispensing costs far in excess of those found in a traditional pharmacy. The analyses summarized in Tables 3.4 and 3.5 below exclude the 15 specialty pharmacy providers. In making this exclusion, no representation is made that the cost structure of those pharmacies is not important to understand. However, it is reasonable to address issues relevant to those pharmacies separately from the cost structure of the vast majority of Indiana Medicaid pharmacy providers that provide “traditional” pharmacy services.

Table 3.4 restates the measurements noted in Table 3.2 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

**Table 3.4 Dispensing Cost Per Prescription – Excluding Specialty Pharmacies**

	Dispensing Cost
Unweighted Average (Mean)	\$11.03
Average (Mean) Weighted by Medicaid Volume	\$9.66
Unweighted Median	\$9.31
Median Weighted by Medicaid Volume	\$8.82

*(Dispensing Costs have been inflated to the common point of June 30, 2006)*

Additional statistical measures of pharmacy dispensing cost are provided in Exhibit 9.

The relationship between total prescription volume and dispensing cost was especially pronounced. Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were then analyzed based upon these volume classifications.

**Table 3.5 Dispensing Cost by Pharmacy Total Annual Prescription Volume<sup>A</sup>**

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Medicaid Volume
0 to 24,999	72	\$18.75	\$13.57
25,000 to 49,999	121	\$11.34	\$10.49
50,000 to 74,999	102	\$9.79	\$9.33
75,000 to 99,999	59	\$8.33	\$9.02
100,000 and Higher	105	\$8.09	\$9.53

<sup>A</sup> Excludes 15 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

There is a significant correlation between a pharmacy's total prescription volume and the dispensing cost per prescription. This result is not surprising because many of the costs associated with a business operation, including the dispensing of prescriptions, have a fixed component that does not vary significantly with increased volume. For stores with a higher total prescription volume, these fixed costs are spread over a greater number of prescriptions resulting in lower costs per prescription. A number of relatively low volume pharmacies in the survey skew the distribution of dispensing cost and increase the measurement of the unweighted average (mean) cost of dispensing.

**Table 3.6 Statistics for Pharmacy Total Annual Prescription Volume<sup>A</sup>**

Statistic	Value
Mean	78,021
Standard Deviation	89,141
10 <sup>th</sup> Percentile	20,389
25 <sup>th</sup> Percentile	32,325
Median	57,798
75 <sup>th</sup> Percentile	94,723
90 <sup>th</sup> Percentile	146,069

<sup>A</sup> Excludes 15 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A histogram of pharmacy total annual prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 10.

## Components of Dispensing Cost

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 3.7 displays the means of the various cost components for pharmacies in the sample. Labor-related expenses accounted for approximately 66% of overall prescription dispensing costs.

Expenses in Table 3.7 are classified as follows:

- Owner professional labor – owner’s labor costs were subject to constraints in recognition of its special circumstances as previously noted.
- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.
- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.
- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.



**Table 3.7 Components of Prescription Dispensing Cost<sup>A</sup>**

Type of Expense	Unweighted Average (Mean) Dispensing Cost	Average (Mean) Weighted by Medicaid Volume
Owner Professional Labor	\$0.717	\$0.660
Employee Professional and Other Labor	\$7.253	\$5.701
Building and Equipment	\$0.719	\$0.745
Prescription Specific Expenses (incl. delivery)	\$0.934	\$1.274
Other Overhead Expenses	\$1.402	\$1.275
<b>Total</b>	<b>\$11.025</b>	<b>\$9.655</b>

<sup>A</sup> Excludes 15 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A pie chart of the components of prescription dispensing cost is provided in Exhibit 11.

### **Expenses Not Allocated to the Cost of Dispensing**

In the following Table 3.8, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

**Table 3.8 Non-Allocated Expenses Per Prescription<sup>A</sup>**

Expense Category	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
Bad Debts	\$0.082	\$0.155
Charitable Contributions	\$0.011	\$0.007
Advertising	\$0.270	\$0.198

<sup>A</sup> Excludes 15 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.



## Analysis of Pharmacy Net Margins

To analyze pharmacy profitability, Myers and Stauffer utilized the dispensing cost survey data to directly calculate net margins for pharmacies participating in the survey. Net margins are presented in two ways: on a percentage basis, and on a per prescription basis.

In its most basic form, net margins on a percentage basis are the result of the following calculation:

$$\text{Percent Net Margin} = \frac{(\text{Rx Sales}) - (\text{Rx Cost of Goods}) - (\text{Rx Dispensing Related Costs})}{(\text{Rx Sales})}$$

Similarly, margins on a per prescription basis resulted from the following calculation:

$$\text{Net Margin per Rx} = \frac{(\text{Rx Sales}) - (\text{Rx Cost of Goods}) - (\text{Rx Dispensing Related Costs})}{(\text{Total Number of Rx's Dispensed})}$$

In both cases, the estimate of pharmacy net margins is exclusively associated with the prescription dispensing function of the pharmacy. No attempt was made to quantify the profitability of the non-prescription related aspects of pharmacy operations.

The determination of prescription dispensing-related cost resulted from the cost-finding methodologies described previously. Allowable dispensing costs were determined using general Medicare and Medicaid cost finding principles, which are commonly applied to institutional reimbursement models (i.e., hospitals and nursing facilities). These methods were used to determine pharmacy costs that are *directly related to patient care*.

Consistent with these principles, the calculations of dispensing cost were made exclusive of bad debt expense and advertising expense reported by the pharmacies. While these exclusions are appropriate for the calculation of dispensing cost associated with prescriptions for Medicaid recipients, to exclude them in estimates of pharmacy profitability may be misleading. Accordingly, the estimates of pharmacy profitability are presented both exclusive and inclusive of bad debt and advertising expenses.

Following the calculation of net margins for each pharmacy, numerous statistics were calculated to present the central tendency and variability of pharmacy profitability. Exhibits 12 and 13 are a presentation of those measurements, including breakdowns by pharmacy affiliation (i.e., chain versus independent),

pharmacy location (i.e., urban versus rural) and pharmacy total prescription volume. In these observations of pharmacy profitability, measurements from specialty pharmacies and pharmacies that did not report cost of goods sold have been excluded.

Table 3.9 summarizes the principal findings of the analysis of pharmacy profitability.

**Table 3.9 Statistical Summary of Net Margins on Prescription Dispensing**

Measurement	Average (Mean)	Standard Deviation	Percentile Ranges		
			20 <sup>th</sup>	50 <sup>th</sup> (Median)	80 <sup>th</sup>
Percent Net Margin (excludes bad debt, advertising expenses)	1.8%	11.9%	-2.4%	4.3%	7.9%
Percent Net Margin (includes bad debt, advertising expenses)	1.2%	12.1%	-3.3%	3.7%	7.2%
Net Margin per Rx (excludes bad debt, advertising expenses)	\$1.08	\$6.32	-\$1.27	\$2.15	\$3.79
Net Margin per Rx (includes bad debt, advertising expenses)	\$0.78	\$6.28	-\$1.68	\$1.82	\$3.59

Percentage net margins on prescription dispensing activities at most pharmacies ranged from -2.4% to 7.9% (the 20<sup>th</sup> and 80<sup>th</sup> percentiles, respectively). On a per prescription basis, net margins at most pharmacies ranged between -\$1.27 and \$3.79 (the 20<sup>th</sup> and 80<sup>th</sup> percentiles, respectively). Based on our analysis described herein, 23% of pharmacies had negative net margins.

## Conclusions

Myers and Stauffer performed a study of the cost of dispensing prescription medications to Medicaid recipients in the state of Indiana. The dispensing cost study considered operational data, professional services data, overhead data and profit data relating to the costs of pharmacy operation. Based on our analysis of dispensing costs of pharmacies participating in the Indiana Medicaid program, the statewide average dispensing cost per prescription was \$9.66.<sup>26</sup> This figure excludes 15 specialty pharmacies, which as noted previously exhibited a significantly different cost structure.

<sup>26</sup> The statewide average dispensing cost per prescription is the mathematical mean, weighted by each pharmacy's Medicaid volume. That is, the average dispensing cost per prescription of a pharmacy with higher Medicaid volume is weighted more in this average than a pharmacy with lower Medicaid volume.

Myers and Stauffer also used the survey data to analyze pharmacy profitability. Percentage net margins on prescription dispensing activities at the majority of pharmacies ranged from -2.4% to 7.9%. On a per prescription basis, net margins at the majority of pharmacies ranged between -\$1.27 and \$3.79. Based on our analysis described herein, 23% of pharmacies had negative net margins.

**Exhibit 1**  
**Indiana Medicaid**  
**Pharmacy Cost Report**

Agency Use Only

Page 1  
(9/2006)**Indiana Medicaid Pharmacy Cost Report**

Medicaid Provider No.

Return Completed Forms to:  
Myers and Stauffer LC  
9265 Counselors Row, Suite 200  
Indianapolis, Indiana 46240  
**Myers and Stauffer LC**  
Certified Public Accountants

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Please Complete and return by **November 17, 2006**

Instructions are enclosed. Please call toll free (800) 877-6927 if you have questions when completing this report.

Name of Pharmacy \_\_\_\_\_ Telephone No. ( ) \_\_\_\_\_  
 Street Address \_\_\_\_\_ Fax No. ( ) \_\_\_\_\_  
 City \_\_\_\_\_ County \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

**DECLARATION BY OWNER AND PREPARER**

I declare that I have examined this cost report including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related Books or Federal Income Tax Return, except as explained in the Reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

Your Signature	Print/Type Name	Title/Position	Date
Preparer's Signature (other than owner)		Title/Position	Date
Preparer's Street Address	City and State	Zip	Phone Number

**SECTION IA -- PHARMACY ATTRIBUTES****List the total number of all prescriptions dispensed during the fiscal year as follows:**

(a) **New** \_\_\_\_\_ **Refill** \_\_\_\_\_ **Total** \_\_\_\_\_

(b) Type of Ownership  
 1. ☐ Individual      2. ☐ Corporation      3. ☐ Partnership      4. ☐ Other

(c) Location  
 1. ☐ Medical Office Building      2. ☐ Shopping Center  
 3. ☐ Separate or Downtown      4. ☐ Other (specify) \_\_\_\_\_

(d) Ownership Affiliation  
 1. ☐ Independent (1-4 Units)      2. ☐ Chain (5 or more units nationally)  
 3. ☐ Institutional (service to long-term care facilities only)      4. ☐ Other Specialty (specify) \_\_\_\_\_

(e) Do you own your building or lease your building from a related party (i.e. yourself, family member, or related corporation)? If so, mark yes.  
 1. ☐ Yes      2. ☐ No

[illegible]**SECTION IB -- OTHER INFORMATION**

Please list any additional information you feel contributes significantly to your cost of filling a prescription. Also, if you have a significant amount of non-retail sales of drugs at cost, please note the amount and if it is included in line (1), column (1) on page 3.

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Round all amounts to nearest dollar or whole number.

**SECTION IIA -- SALES AND FLOOR SPACE**

	<b>Prescription Drugs Only</b>	<b>Total Store Including Prescription Drugs</b>	<b>Line No.</b>
Sales (Excluding Sales Tax)			(1)
Cost of Goods Sold			(2)
Floor Space (Retail area only). Please measure. Do not estimate.	Sq. Ft.	Sq. Ft.	(3)

**SECTION IIB -- OVERHEAD EXPENSES**

Complete this section by referring to the line numbers in the left columns that correspond to federal income tax return lines or use internal financial statements.

The following information is from tax / fiscal year ending..... / / (4)

**2005 Tax Form  
Number**

<b>1040C</b>	<b>1065</b>	<b>1120</b>	<b>1120S</b>		<b>Total Expense</b>	<b>Agency Use Only</b>	<b>Line No.</b>
13	16a	20	14a	Depreciation (this fiscal year only - not accumulated).....			(5)
23	14	17	12	Taxes (a) Personal Property Taxes Paid.....			(6)
				(b) Real Estate Taxes.....			(7)
				(c) Payroll Taxes.....			(7a)
				(d) Sales Taxes.....			(7b)
				(e) State Income Tax (Corporations Only).....			(8)
				(f) Any other taxes (specify each type and amount)			(9)
20b	13	16	11	Rent (a) Building Rent (See Instructions, page 3).....			(10)
20a	13	16	11	(b) Equipment and Other.....			(11)
21	11	14	9	Repairs.....			(12)
15	20	26	19	Insurance (a) Workers Comp. and Employee Medical.....			(13)
15	20	26	19	(b) Other.....			(14)
16a&b	15	18	13	Interest.....			(15)
17	20	26	19	Legal and Professional Fees.....			(16)
27	20	26	19	Dues and Publications.....			(17)
27	12	15	10	Bad Debts (this fiscal year only - not accumulated).....			(18)
		19		Charitable Contributions (Corporations Only).....			(19)
25	20	26	19	Telephone.....			(20)
25	20	26	19	Heat, Water, Lights, Sewer, Trash and other Utilities.....			(21)
18&22	20	26	19	Operating and Office Supplies (Exclude Rx containers and labels)...			(22)
8	20	23	16	Advertising.....			(23)
27	20	26	19	Rx Computer Expenses (See Instructions).....			(24)
9,27	20	26	19	Rx Delivery Expenses (See Instructions).....			(25)
27	20	26	19	Rx Containers and Labels (See Instructions).....			(26)
Various	18+	24+	17+	Other Expenses (Not included elsewhere) _____			(27)
	19+	25+	18+	(Attach Schedule if necessary) _____			(28)
	20	26	19	(Specify each item and corresponding amount) _____			(29)
Total Overhead Expenses [Add Line (5) through Line (29)]							(30)

**SECTION IIC -- PERSONNEL COSTS** -- List each person separately (except Line 44). Attach schedule if necessary.

	Check if RPh	Estimate Percent of Rxs Dispensed by Each RPh	Annual Salaries and/or Drawings	AGENCY USE ONLY	No. Weeks Employed This Fiscal Year	Average Weekly Hours		Line No.
						Total Store Including Rx Dept.	Rx Dept. Related Duties Only	
Owners, Individual Proprietors, Partners, and Stockholders.....								(31)
								(32)
								(33)
Employee and Relief Pharmacists.....								(34)
								(35)
								(36)
								(37)
Interns.....								(38)
Subtotal:		100%	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	(38a)
Rx Delivery.....	XXX	XXXXXXXXXX						(39)
	XXX	XXXXXXXXXX						(40)
Other Employees with Time in Rx Dept. (Including Rx Technicians).....	XXX	XXXXXXXXXX						(41)
	XXX	XXXXXXXXXX						(42)
	XXX	XXXXXXXXXX						(43)
All Non-Rx Employees.....	XXX	XXXXXXXXXX			XXXXX	XXXXX	XXXXX	(44)
TOTALS.....	XXX	XXXXXXXXXX			XXXXX	XXXXX	XXXXX	(45)

**SECTION II D -- RECONCILIATION WITH TAX RETURN (OR BOOKS)**

2005 Tax Form Number			
1040C	1065	1120	1120S

Column 1	Column 2					
Cost Report Amounts	Books or Tax Return Amounts					
28	21	27	20	Total Expenses per Tax Return / Books (Circle one used).....		(46)
				Enter Amount from Line (30).....		(47)
				Enter Amount from Line (45).....		(48)
				Total Expenses per Cost Report [Add Lines (47) and (48)].....		(49)
				Specify Items with Amounts that are on Cost Report but not on Tax Return (or Books).....		(50)
				.....		(51)
				Specify Items with Amounts that are on Tax Return (or Books) but not on this Cost Report.....		(52)
				.....		(53)
				Total [Add Lines (46) to (53)] Column Totals Should be Equal..		(54)



Survey

Date

September 22,  
2006

# SECTION III -- INDIANA PHARMACY PRESCRIPTION CHARGES SURVEY

Medicaid

Provider No.

New Prescriptions Only - Exclude Compounded Rx's and OTC Products

Please review the instructions prior to completing this form.

Line Number	Rx Number	Payer Code See Codes Below	Drug Name, Strength	NDC Number				Quantity Filled Use Medicaid Units	Actual Selling Price (amount received)
				Mfr	Drug	Pkg			
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									

Payer Codes: Cash -- C; Medicaid Fee for Service -- MF; Medicaid Managed Care -- MM; CHAMPUS -- CH; Workers Compensation -- W; Private Insurance -- P;  
Medicare Discount Card -- DC; Medicare Part D -- MD; Other -- O

  
Myers and Stauffer, LLC  
Certified Public Accountants

Survey  
Date

September 22,  
2006

SECTION III -- INDIANA PHARMACY PRESCRIPTION CHARGES SURVEY

New Prescriptions Only - Exclude Compounded Rx's and OTC Products

Medicaid  
Provider No.

Please review the instructions prior to completing this form.

Line Number	Rx Number	Payer Code See Codes Below	Drug Name, Strength	NDC Number				Quantity Filled Use Medicaid Units	Actual Selling Price (amount received)
				Mfr	Drug	Pkg			
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									
36									
37									
38									
39									
40									
41									
42									
43									
44									
45									
46									
47									
48									
49									
50									

Payer Codes: Cash – C; Medicaid (Fee for Service) – MF; Medicaid Managed Care – MM; CHAMPUS – CH; Workers Compensation – W; Private Insurance – P;  
Medicare Discount Card -- DC; Medicare Part D -- MD; Other -- O

 **Myers and Stauffer, LC**  
Certified Public Accountants

**Exhibit 2**  
**Indiana Medicaid**  
**Pharmacy Cost Report**  
**Instructions**

# Indiana Medicaid Pharmacy Cost Report Instructions

## Survey Forms by

**Myers and Stauffer LC**  
**Certified Public Accountants**  
**9265 Counselors Row, Suite 200**  
**Indianapolis, Indiana 46240**  
**800-877-6927**

**PURPOSE:** The purpose of this survey is to determine the approximate cost of dispensing prescriptions in the State of Indiana.

## WHO SHOULD FILE THIS FORM

Except for the following, all Medicaid enrolled pharmacies should file this cost report:

- ☐ New pharmacies that were in business less than six months during the reporting period
- ☐ Pharmacies with a change of ownership that resulted in less than six months in business during the reporting period

If your pharmacy meets either of the two exceptions listed above, please check the box next to the explanation describing your business, write your pharmacy name and provider number, sign your name, and return only this page to the address above.

Medicaid Provider No. \_\_\_\_\_ Provider Name \_\_\_\_\_ Phone No. \_\_\_\_\_ Signature of Owner \_\_\_\_\_

## GENERAL INSTRUCTIONS

If any assistance is needed in completing this survey, please call toll-free (800) 877-6927. Please complete these forms using your most recently completed fiscal year (e.g., December 31, 2005) and **return them by November 17, 2006**. Most retail pharmacies can complete the survey form by using their most recent federal income tax return. Most expense line items can be transferred directly from a line on the tax return to a line on the cost report. Line reference numbers of four tax forms are listed on the left side of the cost report. Simply locate the column for your tax form.

If you prefer, send us a copy of your income tax return (Form 1065, 1120, 1120S, or Schedule C of Form 1040 including supporting schedules) or your financial statements and we will complete the overhead expenses, Section IIB, Page 3 and Section IID, Page 4, for you. **You will still need to fill in the remaining sections of the cost report.** If you send a copy of your tax return, please identify any expenses that are 100% Rx-Department expenses such as continuing education, and identify any expenses that are 100% non-Rx Department expenses such as fountain expenses, etc. By sending any of these tax forms, you will not be providing us with any information other than that requested if you completed the survey yourself. We will destroy the tax forms after entering the information on the survey.

Please remember to round all amounts to the nearest dollar or whole number.

## Indiana Medicaid Pharmacy Cost Report - Instructions

### Retail Chain Pharmacies

Expenses incurred by chain pharmacies such as administration, central operating, or other general expenses should be allocated to individual units. Warehousing expenses must be either separately identified or included in the cost of goods sold. Methods of allocation must be reasonable and conform to generally accepted accounting principles. Please explain any allocation procedures used. Allocated costs should be clearly identified and entered on lines 27, 28 and/or 29.

### SECTION IA --- PHARMACY ATTRIBUTES

The information gathered from your answers to these questions will be analyzed to determine its relationship to your cost of dispensing a prescription. It may be necessary to provide estimates for some answers; please estimate as carefully and accurately as possible.

**Line (a)**      **"Prescriptions Dispensed."** Please report the total number of all prescriptions filled **during the fiscal year** of the costs reported on pages 3 and 4 of this cost report. This information may be kept on a daily or monthly log or on your computer.

### SECTION IIA --- SALES AND FLOOR SPACE

**Line (1)**      **Please list total store sales excluding sales tax.** Total store sales and cost of goods sold are shown on the federal income tax return. If there is no separate record of prescription drug sales, estimate it as accurately as possible. Sales of prescription drug items should NOT include nonprescription OTC's, durable medical equipment, or other nonprescription items. One method to estimate sales of prescription drug items is to use your sales tax return. If Rx cost of goods sold is not readily available, leave that line blank.

**Line (3)**      Since **floor space** will be used in allocating expenses, accuracy is important. When measuring the total store, include only the retail area and exclude any storage area, i.e., basement, attic, off-the-premises areas, or freight in-out areas. When measuring the Prescription Department, exclude patient waiting area and prescription-related office. These should be included in total store area. A factor is added to the Prescription Department area to account for both waiting and office space.

### SECTION IIB --- OVERHEAD EXPENSES [TAX RETURN MAY BE SUBSTITUTED.]

Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. **The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only). The rental amount will be disallowed. Please show this as a reconciling item in Section IID.**

**Line (6) & (7)**      Include only personal property taxes or real estate taxes paid on property used in this pharmacy's business.

**Line (7a)**      Include the employer's share of FICA and Medicare taxes, and state and federal unemployment taxes.

**Line (10)**      Include only rent that applies to the store. **Report only rental expense incurred by transactions between non-related parties. See the first paragraph of this section for expenses allowed in lieu of rent paid to a related party.**

## Indiana Medicaid Pharmacy Cost Report - Instructions

- Line (22)** Include office and operating supplies. If prescription containers and labels are included in your supplies, please exclude them from this line and show them on line (26).
- Line (24)** **Rx Computer Expenses.** Include expenses for a computer that is used only in the Rx Department. These expenses should not be duplicated on any other line. If your computer is used by other departments of the pharmacy, do not enter anything on this line and enter computer expenses on line (29).
- Line (25)** **Rx Delivery Expenses.** If you deliver Rx items only, include expenses paid for your delivery vehicle here, including expenses paid to a delivery service for delivery of Rx items. These expenses should not be duplicated on any other line. If your delivery vehicle is used by other departments of the pharmacy or for miscellaneous purposes, do not enter anything on this line and enter delivery expenses on line (29).
- Line (26)** **Rx Containers and Labels.** The cost of prescription containers and labels should be included here if separately identified as "other deductions" on your federal income tax return. If this expense is included in cost of goods sold on your federal income tax return and if your accounting records are such that this figure is difficult to determine, leave this line blank. An allowance will be made for Rx containers and labels based on your prescription volume.
- Lines (27)-(29)** On these lines identify any non-labor expenses not already included on your cost report but listed as other deductions on your federal income tax return. **Identify each item and the amount, rather than labeling all such expenses as "miscellaneous."** If you wish, you may simply attach the schedule from your federal return which lists these expenses. Please clearly label any items that are 100% Rx-related, such as pharmacist continuing education, or that are 100% non-Rx-related, such as fountain operation expenses.

### SECTION IIC --- PERSONNEL COSTS [LINES (31)-(45)]

- Lines (31)-(38)** **"Percent of Prescriptions Dispensed."** Please provide your best estimate of the percentage of prescriptions dispensed by each pharmacist. Notice: This column must total line 38a (100%).
- Lines (31)-(43)** **"Average Weekly Hours."** You may not have detailed records of where each employee worked; however, please provide your best estimate of an average or "typical" week. Column 6 should show average number of hours the employee worked per week. Column 7 should show the average number of hours per week spent performing Rx-related duties. Rx-related duties are defined as time spent filling prescriptions as well as doing the related administrative work, including ordering and stocking prescription ingredients, taking inventory, maintaining prescription files and delivering prescriptions. Pharmacists providing consultation to long-term care facilities should be identified and listed separately. Any revenue received for those consultation services should be noted in Section IB, page 2.
- Lines (31)-(33)** **"Owners."** For purposes of this study, an employee who is a stockholder in the pharmacy is considered an "Owner." All individual proprietors, partners, or stockholders should list their total drawings and/or salaries for the year. Do not show net profit as the 'owner's salary but **only actual drawings or salary**. For those owners who took no salary or drawings, show zero to indicate you have not overlooked this line. A salary will be allocated based on time and/or prescriptions dispensed.

## Indiana Medicaid Pharmacy Cost Report – Instructions

**Lines (39)-(43)** Rx Technicians, nonprofessional, clerical, and delivery personnel who perform Rx-related duties should be listed.

**Line (44)** “**All Non-Rx Employees.**” List total salaries for all employees who spend no time in Rx-related duties.

### SECTION IID --- RECONCILIATION WITH BOOKS OR FEDERAL INCOME TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. For example, pharmacies operating as sole proprietors will normally need to list owner's salaries, drawings, and benefits as a reconciling item. Other examples of reconciling items are the 50% meals deduction, rent paid to related party, etc.

### SECTION III --- PHARMACY PRESCRIPTION CHARGES SURVEY

List the appropriate information for the first 50 NEW prescriptions dispensed on the day shown in the box in the upper left corner of the survey form. If 50 new prescriptions were not dispensed on that day, list the first new prescriptions dispensed on the following day(s) until 50 are listed. DO NOT list compounded or OTC prescriptions. Skip these and proceed to the next prescription. All other new prescriptions must be listed - including loss leaders, third party paid prescriptions, special rates, sale prices, and controlled substances. Actual selling price shown should be the amount received for the prescription. The selling price for third party prescriptions should be shown as the amount received from the third party plus any co-pay collected from the patient. Complete the Payer Code column using the following codes:

<b>Cash</b>	<b>C</b>
<b>Medicaid Fee for Service</b>	<b>MF</b>
<b>Medicaid Managed Care</b>	<b>MM</b>
<b>CHAMPUS</b>	<b>CH</b>
<b>Workers Compensation</b>	<b>W</b>
<b>Private Insurance (e.g. BC/BS, through PBM etc.)</b>	<b>P</b>
<b>Medicare Discount Card</b>	<b>DC</b>
<b>Medicare Part D</b>	<b>MD</b>
<b>Other</b>	<b>O</b>

If preferred, you may send a computer generated drug listing. Please ensure all required data is included on the computer-generated listing and identify any special codes used on the listing, i.e., M for Medicaid.

NOTE: For quantity filled, report the unit of issue used when requesting Medicaid prescription reimbursement.

**Exhibit 3**  
**Initial Letter from the Indiana Office of  
Medicaid Policy and Planning Regarding  
Pharmacy Cost Survey**





*"People  
helping people  
help  
themselves"*

Mitchell E. Daniels, Jr., Governor  
State of Indiana

***Office of Medicaid Policy and Planning***  
MS 07, 402 W. WASHINGTON STREET, ROOM W382  
INDIANAPOLIS, IN 46204-2739

October 6, 2006

Dear Medicaid Enrolled Pharmacy Provider:

This letter is to advise you that the Indiana Office of Medicaid Policy and Planning (OMPP) has contracted with the firm of Myers and Stauffer LC to perform the legislatively-mandated pharmacy dispensing cost survey. This survey is required pursuant to I.C. 12-15-31.1, and must be performed at least every two (2) years to assess the appropriate level of Medicaid pharmacy dispensing fees. Myers and Stauffer LC has performed similar surveys for other State Medicaid agencies, and has developed the attached form to collect the necessary data from your pharmacy.

Please provide the information requested on the enclosed cost report, and submit it to Myers and Stauffer LC no later than November 17, 2006. It is crucial that we have complete participation with the survey so that we can appropriately evaluate the costs faced by our participating providers. We appreciate your continued participation in the Medicaid program, as well as your cooperation with this important study. Please direct questions about the cost survey to Myers and Stauffer at (800) 877-6927 or (317) 846-9521.

Sincerely,

Jeanne M. LaBrecque  
Director of Health Policy and Medicaid



**Exhibit 4**  
**Initial Letter from Myers and Stauffer**  
**for Dispensing Cost Survey:**  
**Independent and Chain**



October 6, 2006

Dear Pharmacy Owner or Manager:

This letter is to advise that the Office of Medicaid Policy and Planning is conducting a survey of dispensing costs for pharmacies participating in the Indiana Medicaid program. This survey is required by I.C. 12-15-31.1. The OMPP has contracted with the firm of Myers and Stauffer LC to perform the survey. The purpose of the survey is to evaluate Medicaid dispensing fees paid to pharmacies. All Medicaid enrolled pharmacies have been selected to participate in the survey, and are required to participate pursuant to your provider agreement with Indiana Medicaid.

We request that you please complete the enclosed cost report form, following the general instructions below. Detailed instructions to assist you in completing the cost report are also enclosed. All sections of the cost report must be completed.

You may elect to submit your business federal income tax return (Form 1065, 1120, 1120S, or Schedule C of Form 1040, and accompanying schedules) in lieu of completing the overhead expenses on Section IIB, Page 3, and Section IID, Page 4. We will complete these sections using your submitted tax return. If you elect this option, please so indicate in your cover letter, and do not complete Sections IIB and IID. If you elect this option, you must still complete the following sections of the cost report form:

- Pages 1 and 2 – Pharmacy attributes and other information,
- Page 3 – Line 1 (column 1) – Prescription sales, and Line 3 (columns 1 and 2) – prescription area and total store area,
- Page 4 – Personnel costs – complete lines 31-45 (all columns),
- Section III – Pharmacy Prescription Charges Survey

The cost report should be completed for your most recent fiscal year for which your financial statements or tax return have been completed. **Please complete and submit the cost report no later than Friday, November 17, 2006 to:**

Myers and Stauffer LC  
Certified Public Accountants  
Attn: Pharmacy Dispensing Fee Survey  
9265 Counselors Row, Suite 200  
Indianapolis, IN 46240

9265 Counselors Row, Suite 200 ■ Indianapolis, Indiana 46240-6419  
(317) 846-9521 ■ (800) 877-6927 ■ FAX (317) 571-8481

Page 2

It is very important to the success of this study that all pharmacies cooperate fully by filing an accurate cost report. Myers and Stauffer LC will review the information submitted by your pharmacy. In the event this review yields any need for additional information or clarification, we will contact you by phone or letter. At a later date, a limited sample of pharmacies will be selected for an on-site field review of the information submitted.

Information generated by this study may be used as a basis to evaluate Medicaid reimbursement paid to pharmacies. Myers and Stauffer LC will hold all information in strict confidence, and no pharmacy will be given access to another pharmacy's information.

If you have any questions about this study or the completion of the cost report form, please contact our **Pharmacy Help Desk at (317) 846-9521 or (800) 877-6927 or by e-mail using [pharmacy@mslc.com](mailto:pharmacy@mslc.com)**. We appreciate your assistance with this important project and look forward to hearing from you.

Sincerely,

Myers and Stauffer LC

Enclosures



October 6, 2006

Dear Indiana Medicaid Pharmacy Provider:

This letter is to advise that the Office of Medicaid Policy and Planning is conducting a survey of dispensing costs of pharmacies participating in the Indiana Medicaid program. This survey is required by I.C. 12-15-31.1. The OMPP has contracted with the firm of Myers and Stauffer LC to perform the survey. The purpose of the survey is to evaluate Medicaid dispensing fees paid to pharmacies. All Medicaid enrolled pharmacies have been selected to participate in the survey, and are required to participate pursuant to your provider agreement with Indiana Medicaid.

We request that you please complete the enclosed cost report form, following the general instructions below. Detailed instructions to assist you in completing the cost report are also enclosed. All sections of the cost report must be completed.

1. Enclosed is a listing of the names and addresses of your Indiana pharmacies that have been selected to participate in the survey. Pharmacy information is presented as shown on the Indiana Health Coverage Programs (IHCP) records. If this list is inaccurate, please notify us.
2. Enclosed is a copy of the Indiana Medicaid Pharmacy Cost Report. Please review the survey instructions and submit a completed survey **for each store** on the attached list. Due to the standards set for this survey, we cannot accept an “aggregated” analysis of multiple stores. Each pharmacy location must be reported separately. However, if you would prefer to submit individual store data in an electronic format such as a spreadsheet, please contact us to determine an acceptable format.
3. Retain a copy of the completed survey forms for your records.
4. If you prefer, send individual income statements (or similar financial reports) for each store and we will enter this information on the survey forms. All such information will be held in strict confidence. You will still need to complete the following cost report sections:
  - a. Pages 1 and 2 – Pharmacy attributes and other information
  - b. Page 3 – Line 1 (column 1) – prescription sales, and line 3 (columns 1 and 2) – prescription area and total store area.
  - c. Page 4 – Personnel costs – complete lines 31-45, all columns
  - d. Section III – Pharmacy Prescription Charges Survey

Page 2

5. Please describe any cost allocations used in preparing the income statement such as administrative expense, etc. Warehousing costs should be shown in cost of goods sold or listed separately.

The cost report should be completed for your most recent fiscal year for which your financial statements or tax return have been completed. **Please complete and submit the cost report no later than Friday, November 17, 2006 to:**

Myers and Stauffer LC  
Certified Public Accountants  
Attn: Pharmacy Dispensing Fee Survey  
9265 Counselors Row, Suite 200  
Indianapolis, IN 46240

It is very important to the success of this study that all pharmacies cooperate fully by filing an accurate cost report. Myers and Stauffer LC will review the information submitted by your pharmacy. In the event this review yields any need for additional information or clarification, we will contact you by phone, letter or email. At a later date, a limited sample of pharmacies will be selected for an on-site field review of the information submitted.

Information generated by this study may be used as a basis to evaluate Medicaid reimbursement paid to pharmacies. Myers and Stauffer LC will hold all information in strict confidence, and no pharmacy will be given access to another pharmacy's information.

If you have any questions about this study or the completion of the cost report form, please contact our **Pharmacy Help Desk at (317) 846-9521 or (800) 877-6927 or by e-mail using [pharmacy@mslc.com](mailto:pharmacy@mslc.com)**. We appreciate your assistance with this important project and look forward to hearing from you.

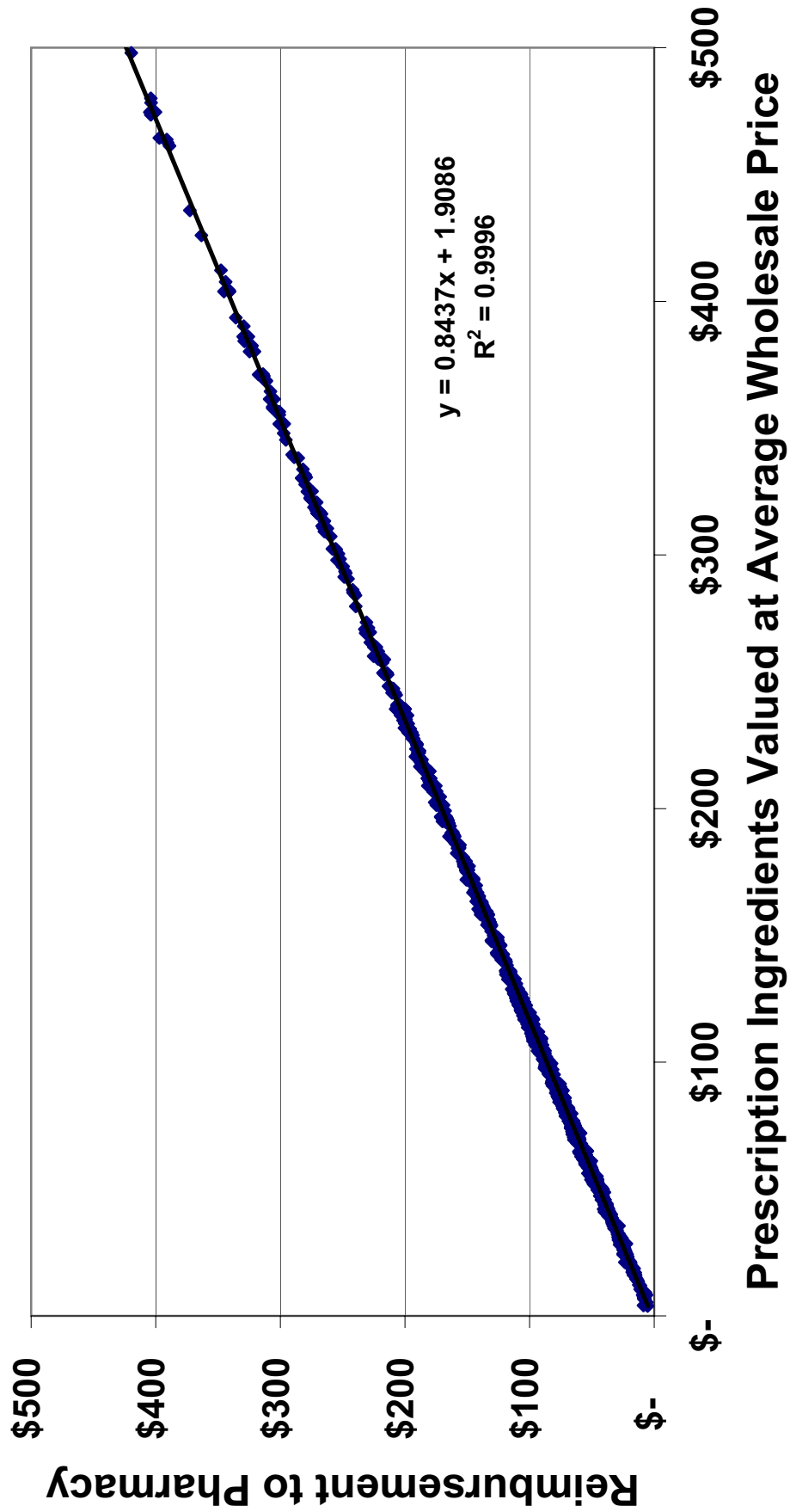
Sincerely,

Myers and Stauffer LC

Enclosures

**Exhibit 5**  
**Prescription Charges Survey -**  
**Commercial Insurance Third Party**  
**Prescriptions**  
**(Single Source Products Only)**

**Prescription Charges Survey  
Commercial Insurance Third Party Prescriptions  
(Single Source Products Only)  
Family and Social Services Administration**



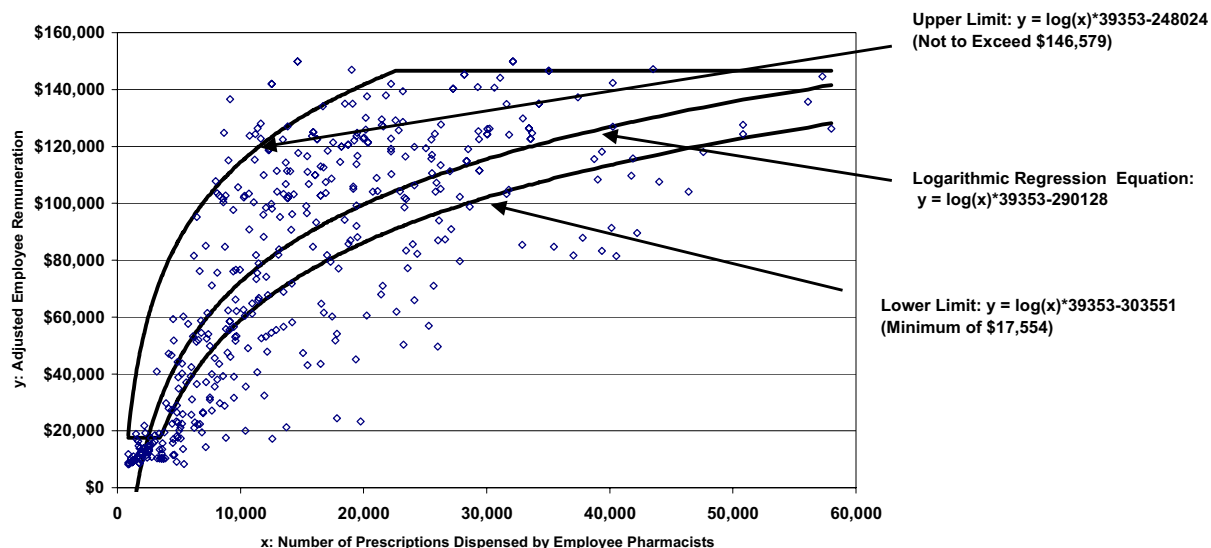


**Exhibit 6**  
**Construction and Application**  
**of Owner Pharmacist Salary Limits**

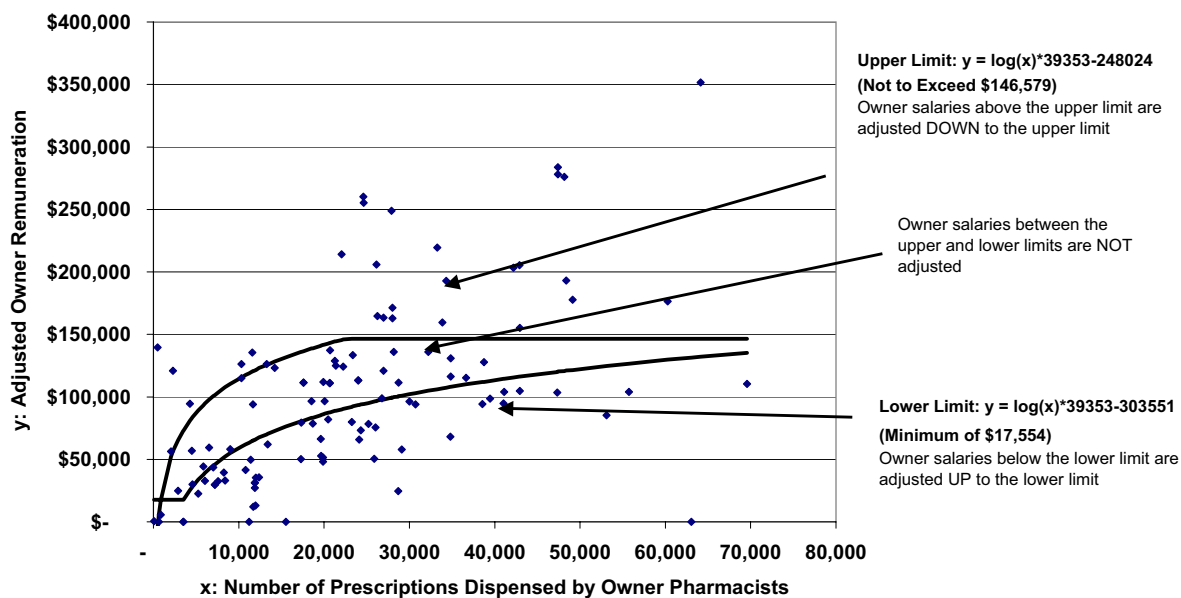
## Construction and Application of Owner Pharmacist Salary Limits

Family and Social Services Administration

### Construction of Owner Pharmacist Salary Limits Based on Employee Pharmacist Salaries



### Application of Owner Pharmacist Salary Limits



**Exhibit 7**  
**Table of Inflation Factors**  
**for Dispensing Cost Survey**

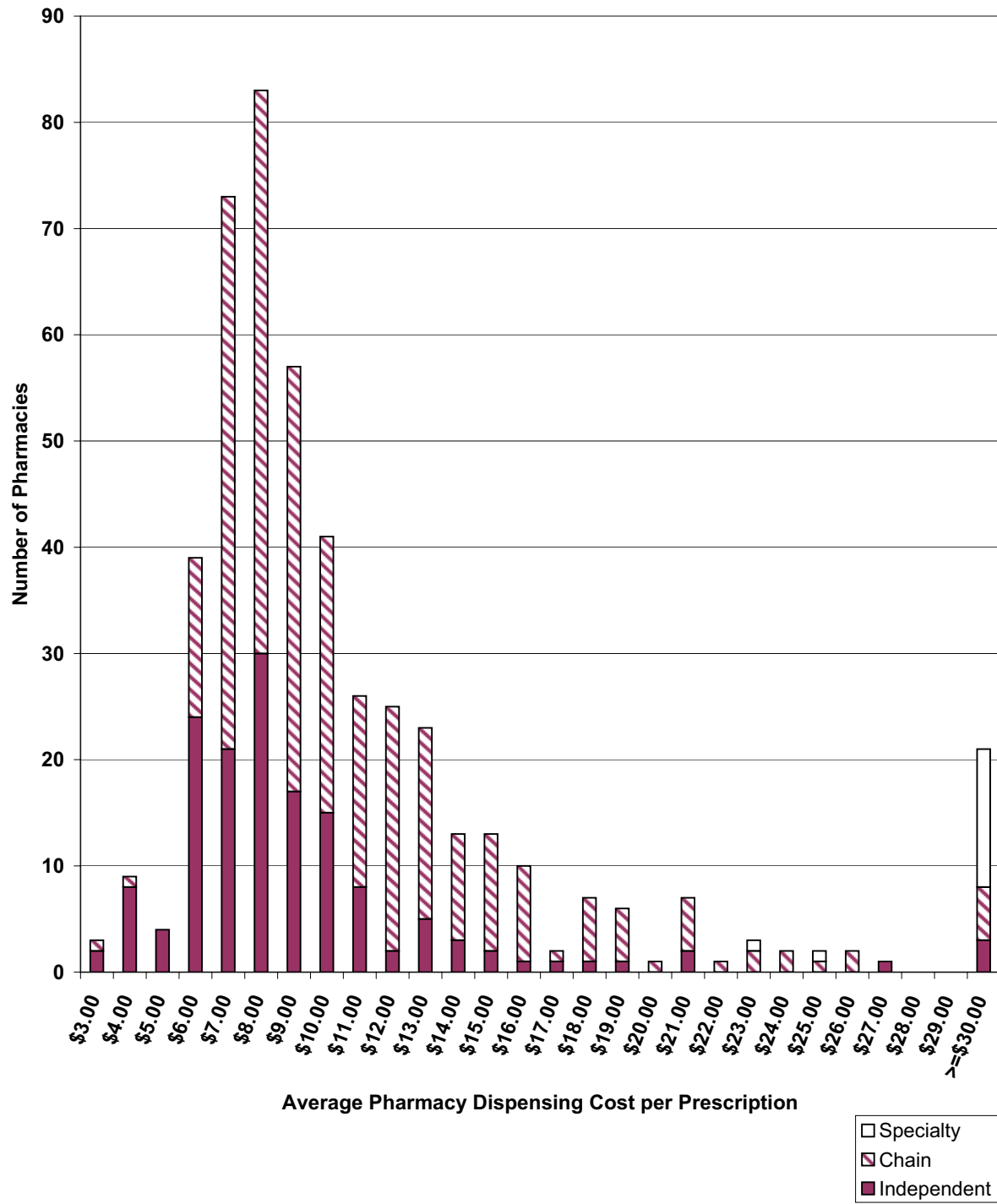
# Table of Inflation Factors for Dispensing Cost Survey Family and Social Services Administration

Fiscal Year End Date	Midpoint Date	Terminal Month Index		Inflation Factor	Number of Stores with Year End Date
		Midpoint Index <sub>1</sub>	(June 30, 2006) <sub>1</sub>		
12/31/2004	6/30/2004	189.7	202.9	1.070	1
1/31/2005	7/31/2004	189.4	202.9	1.071	27
2/28/2005	8/31/2004	189.5	202.9	1.071	0
3/31/2005	9/30/2004	189.9	202.9	1.068	1
4/30/2005	10/31/2004	190.9	202.9	1.063	1
5/31/2005	11/30/2004	191.0	202.9	1.062	0
6/30/2005	12/31/2004	190.3	202.9	1.066	3
7/31/2005	1/31/2005	190.7	202.9	1.064	0
8/31/2005	2/28/2005	191.8	202.9	1.058	1
9/30/2005	3/31/2005	193.3	202.9	1.050	4
10/31/2005	4/30/2005	194.6	202.9	1.043	0
11/30/2005	5/31/2005	194.4	202.9	1.044	0
12/31/2005	6/30/2005	194.5	202.9	1.043	150
1/31/2006	7/31/2005	195.4	202.9	1.038	28
2/28/2006	8/31/2005	196.4	202.9	1.033	25
3/31/2006	9/30/2005	198.8	202.9	1.021	44
4/30/2006	10/31/2005	199.2	202.9	1.019	0
5/31/2006	11/30/2005	197.6	202.9	1.027	0
6/30/2006	12/31/2005	196.8	202.9	1.031	17
7/31/2006	1/31/2006	198.3	202.9	1.023	5
8/31/2006	2/28/2006	198.7	202.9	1.021	162
9/30/2006	3/31/2006	199.8	202.9	1.016	5
10/31/2006	4/30/2006	201.5	202.9	1.007	0
11/30/2006	5/31/2006	202.5	202.9	1.002	0
12/31/2006	6/30/2006	202.9	202.9	1.000	0
Total Number of Stores					474

<sup>1</sup> Midpoint and terminal month indices were obtained from the Consumer Price Index, All Urban, as published by the Bureau of Labor Statistics (BLS).

**Exhibit 8**  
**Histogram of**  
**Pharmacy Dispensing Cost**

# **Histogram of Pharmacy Dispensing Cost** **Family and Social Services Administration**



**Exhibit 9**  
**Pharmacy Dispensing**  
**Cost Survey Data –**  
**Statistical Summary**

**Pharmacy Dispensing Cost Survey  
Statistical Summary  
Family and Social Services Administration**

Characteristic	Overhead and Labor Cost per Prescription					Other Statistics			
	Means		Medians			Standard Deviation	95% Confidence Interval for Mean (based on Student t)		t Value (with n-1 degrees of freedom)
	n: Number of Pharmacies	Mean	Weighted by Total Rx by Medicaid Volume	Weighted by Total Rx by Medicaid Volume	Weighted by Total Rx by Medicaid Volume		Lower Bound	Upper Bound	
<b>All Pharmacies in Sample</b>	474	\$15.36	\$9.66	\$9.84	\$8.49	\$8.89	\$11.70	\$19.02	1.97
<b>Non Specialty Pharmacies</b>	459	<b>\$11.03</b>	<b>\$9.14</b>	<b>\$9.66</b>	<b>\$8.49</b>	<b>\$8.82</b>	<b>\$10.46</b>	<b>\$11.60</b>	<b>1.97</b>
<b>Specialty Pharmacies<sup>1</sup></b>	15	\$148.00	\$45.27	\$31.48	\$35.02	\$17.03	\$44.57	\$251.43	2.14
<b><u>Non Specialty Pharmacies Only</u></b>									
<b>Affiliation:</b>									
Chain	308	\$11.56	\$9.28	\$9.05	\$8.26	\$8.21	\$10.91	\$12.22	1.97
Independent	151	\$9.93	\$8.85	\$10.13	\$8.49	\$9.99	\$8.84	\$11.03	1.98
<b>Location:</b>									
Urban	346	\$11.35	\$9.32	\$10.03	\$8.42	\$9.40	\$10.70	\$12.00	1.97
Rural	89	\$10.24	\$8.85	\$8.77	\$8.78	\$8.00	\$8.77	\$11.72	1.99
Out of State	24	\$9.30	\$8.53	\$7.94	\$8.46	\$6.45	\$7.67	\$10.92	2.07
<b>Annual Rx Volume:</b>									
0 to 24,999	72	\$18.75	\$16.07	\$13.57	\$14.47	\$13.32	\$16.12	\$21.37	1.99
25,000 to 49,999	121	\$11.34	\$11.23	\$10.49	\$10.43	\$9.95	\$10.71	\$11.98	1.98
50,000 to 74,999	102	\$9.79	\$9.72	\$9.33	\$9.33	\$8.70	\$9.21	\$10.37	1.98
75,000 to 99,999	59	\$8.33	\$8.30	\$9.02	\$8.19	\$8.50	\$7.81	\$8.85	2.00
100,000 and Higher	105	\$8.09	\$8.23	\$9.53	\$7.88	\$8.53	\$7.71	\$8.46	1.98
<b>Annual Medicaid Rx Volume:</b>									
0 to 999	108	\$15.57	\$11.34	\$14.19	\$9.87	\$12.02	\$13.63	\$17.52	1.98
1,000 to 1,999	60	\$11.70	\$10.66	\$11.53	\$9.74	\$11.02	\$10.61	\$12.79	2.00
2,000 to 2,999	51	\$10.73	\$9.65	\$10.65	\$8.81	\$9.90	\$9.67	\$11.79	2.01
3,000 to 7,499	126	\$9.12	\$8.61	\$8.99	\$8.23	\$8.73	\$8.68	\$9.55	1.98
7,500 and Higher	114	\$8.61	\$8.50	\$9.62	\$8.04	\$8.65	\$8.16	\$9.07	1.98
<b>Medicaid Utilization Ratio:</b>									
0.0% to 1.99%	110	\$12.72	\$9.57	\$9.69	\$8.92	\$8.49	\$11.24	\$14.20	1.98
2.0% to 4.99%	122	\$11.31	\$9.06	\$8.94	\$8.42	\$8.39	\$10.25	\$12.36	1.98
5.0% to 9.99%	124	\$10.24	\$8.39	\$8.31	\$7.99	\$7.98	\$9.12	\$11.37	1.98
10.0% to 14.99%	35	\$9.93	\$9.16	\$9.13	\$8.12	\$8.11	\$8.34	\$11.52	2.03
15.0% and Higher	68	\$9.79	\$9.99	\$10.64	\$9.78	\$10.51	\$9.07	\$10.51	2.00

**Notes:**

- 1) Specialty pharmacies are those that dispense intravenous / home infusion or blood factor products constituting 10% or more of sales.  
2) All pharmacy dispensing costs are inflated by the CPI(U) to the common point of 6/30/2006.



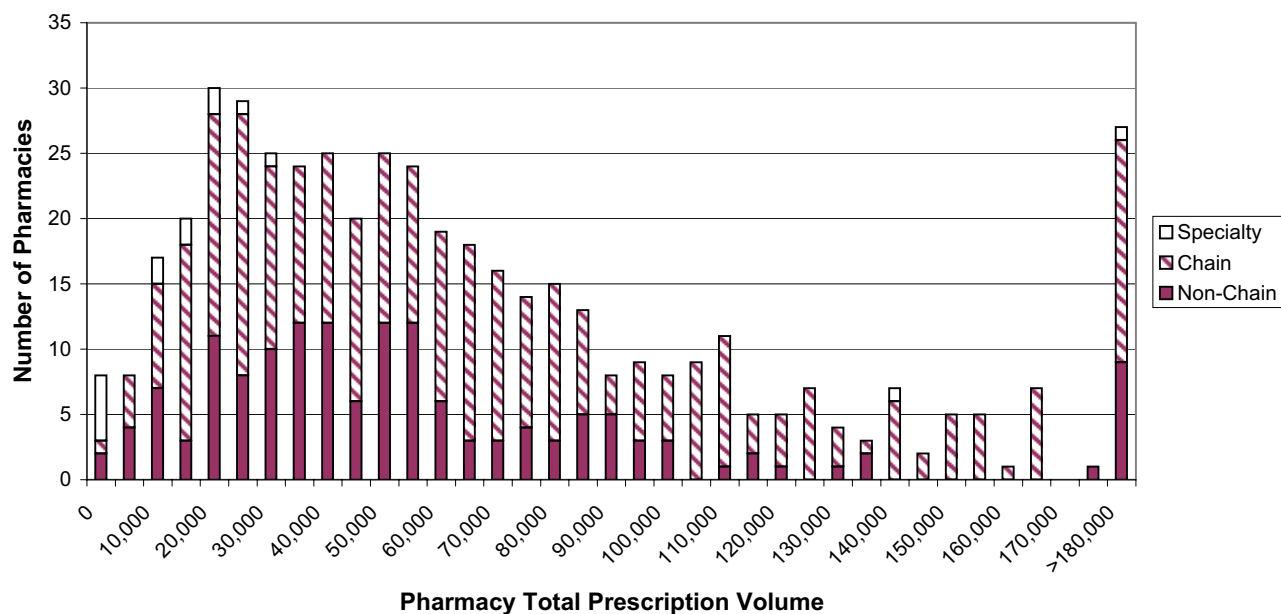
**Exhibit 10**  
**Charts Relating to Pharmacy Total**  
**Prescription Volume:**

**A: Histogram of Pharmacy Total**  
**Prescription Volume**

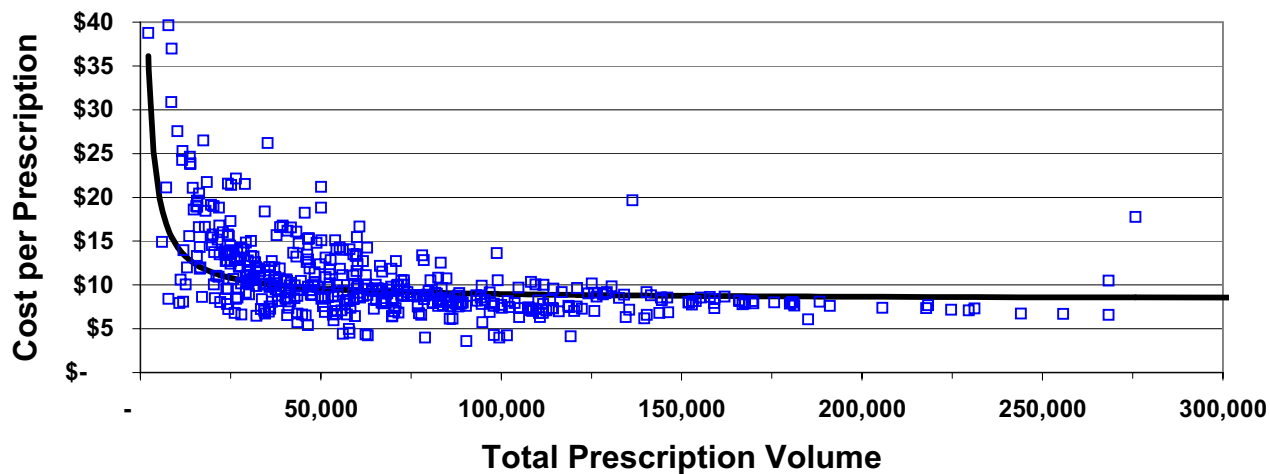
**B: Scatter-Plot of Relationship Between**  
**Dispensing Cost per Prescription and**  
**Total Prescription Volume**

## Family and Social Services Administration

Histogram of Pharmacy Total Prescription Volume

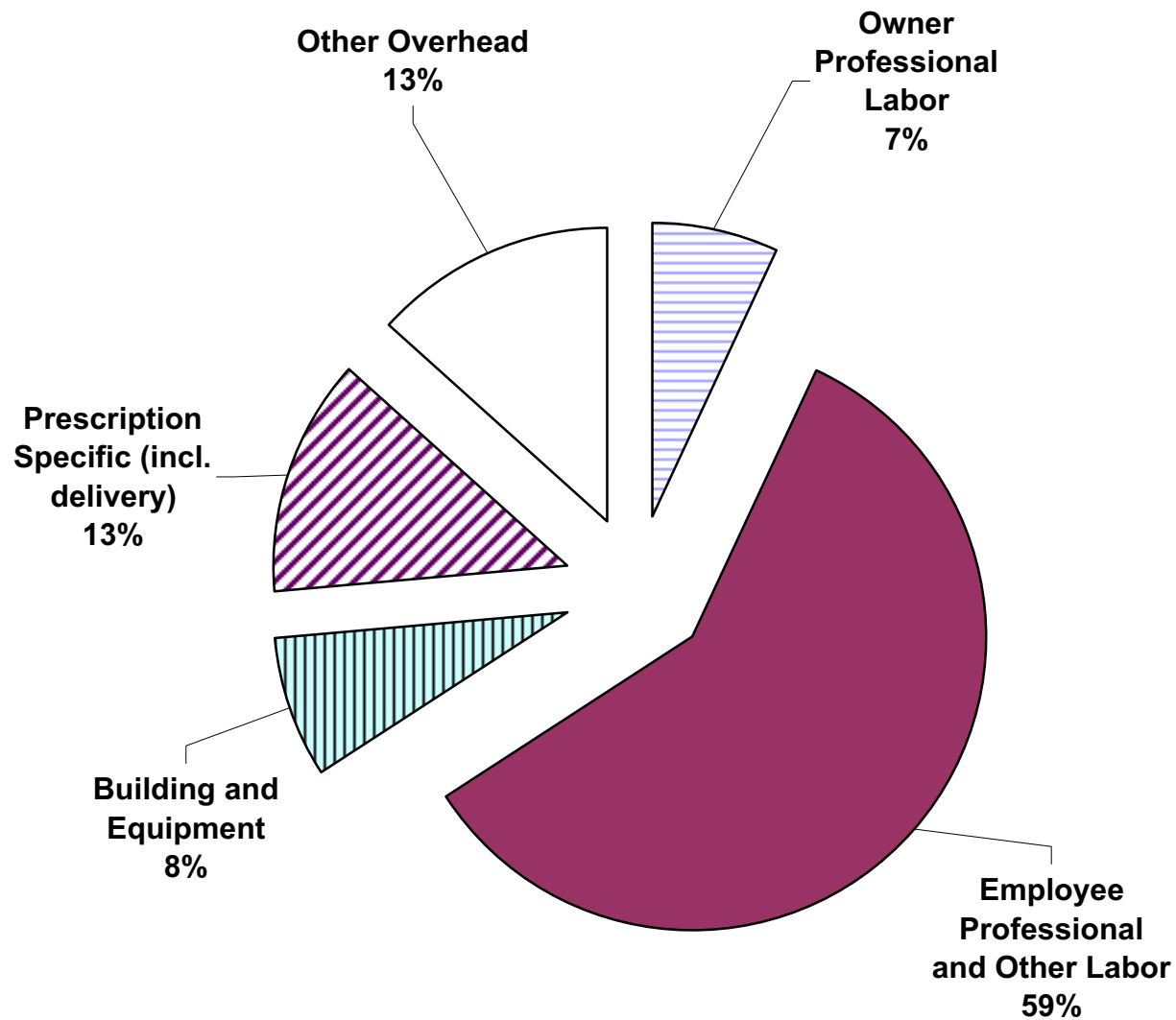


Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume



**Exhibit 11**  
**Chart of Components**  
**of Dispensing Cost**  
**per Prescription**

# Chart of Components of Dispensing Cost per Prescription Family and Social Services Administration



**Exhibit 12**  
**Pharmacy Profit Analysis: Percent**  
**Margin on Prescription Dispensing**  
**Activities**

**Pharmacy Profit Analysis**  
**Percent Margin on Prescription Dispensing Activities**  
Family and Social Services Administration

	Percent Margin on Prescription Dispensing Activities					
		Means		Percentile Ranges		
Characteristic	n: Number of Pharmacies	Mean	Weighted by Total Rx Sales	20%	50% (Median)	80%
Bad Debt and Advertising Expenses Not Allocated to Dispensing Cost						
All Pharmacies Analyzed	387	1.8%	5.4%	-2.4%	4.3%	7.9%
Affiliation:						
Chain	264	1.2%	4.5%	-3.9%	4.3%	7.0%
Independent	123	2.9%	7.3%	-0.9%	4.8%	9.9%
Location:						
Urban	293	1.5%	4.6%	-3.2%	4.3%	7.3%
Rural	72	0.9%	4.8%	-3.5%	3.6%	8.0%
Out of State	22	7.8%	10.0%	2.9%	6.2%	11.7%
Annual Total Rx Volume:						
0 to 24,999	46	-12.8%	-7.4%	-22.0%	-6.8%	2.0%
25,000 to 49,999	95	-0.5%	1.2%	-4.9%	-0.4%	5.1%
50,000 to 74,999	89	3.1%	3.1%	-0.4%	3.3%	6.2%
75,000 to 99,999	53	6.4%	6.9%	3.8%	6.1%	8.9%
100,000 and Higher	104	6.9%	7.3%	4.7%	6.9%	9.1%
Bad Debt and Advertising Expenses Allocated to Dispensing Cost						
All Pharmacies Analyzed	387	1.2%	4.8%	-3.3%	3.7%	7.2%
Affiliation:						
Chain	264	0.7%	3.9%	-4.2%	3.4%	6.3%
Independent	123	2.2%	6.6%	-1.1%	4.1%	9.5%
Location:						
Urban	293	1.0%	4.1%	-3.5%	3.8%	6.7%
Rural	72	0.1%	4.1%	-4.2%	3.1%	7.4%
Out of State	22	6.8%	9.0%	1.6%	5.8%	11.1%
Annual Total Rx Volume:						
0 to 24,999	46	-13.4%	-7.7%	-22.0%	-7.0%	1.2%
25,000 to 49,999	95	-1.0%	0.7%	-5.6%	-0.5%	4.5%
50,000 to 74,999	89	2.4%	2.5%	-0.8%	3.0%	5.4%
75,000 to 99,999	53	5.8%	6.2%	3.3%	5.6%	8.3%
100,000 and Higher	104	6.2%	6.6%	3.9%	6.6%	8.4%

Excludes specialty pharmacies and pharmacies that did not report cost of goods sold.

**Exhibit 13**  
**Pharmacy Profit Analysis:**  
**Net Margin per Prescription**

**Pharmacy Profit Analysis**  
**Net Margin per Prescription**  
Family and Social Services Administration

	Margin per Prescription on Prescription Dispensing Activities					
		Means		Percentile Ranges		
Characteristic	n: Number of Pharmacies	Mean	Weighted by Total Rx Volume	20%	50% (Median)	80%
<b><u>Bad Debt and Advertising Expenses Not Allocated to Dispensing Cost</u></b>						
All Pharmacies Analyzed	387	\$1.08	\$2.66	(\$1.27)	\$2.15	\$3.79
Affiliation:						
Chain	264	\$0.57	\$2.27	(\$2.02)	\$2.10	\$3.52
Independent	123	\$2.19	\$3.47	(\$0.43)	\$2.19	\$4.96
Location:						
Urban	293	\$0.95	\$2.30	(\$1.54)	\$2.05	\$3.67
Rural	72	\$0.67	\$2.32	(\$1.38)	\$1.85	\$4.04
Out of State	22	\$4.26	\$4.63	\$1.50	\$3.13	\$5.68
Annual Total Rx Volume:						
0 to 24,999	46	(\$6.70)	(\$4.11)	(\$12.05)	(\$3.66)	\$1.06
25,000 to 49,999	95	\$0.47	\$0.62	(\$2.76)	(\$0.20)	\$2.50
50,000 to 74,999	89	\$1.56	\$1.60	(\$0.20)	\$1.66	\$3.16
75,000 to 99,999	53	\$3.47	\$3.48	\$1.77	\$2.91	\$4.18
100,000 and Higher	104	\$3.46	\$3.44	\$2.32	\$3.42	\$4.39
<b><u>Bad Debt and Advertising Expenses Allocated to Dispensing Cost</u></b>						
All Pharmacies Analyzed	387	\$0.78	\$2.35	(\$1.68)	\$1.82	\$3.59
Affiliation:						
Chain	264	\$0.31	\$1.98	(\$2.36)	\$1.74	\$3.24
Independent	123	\$1.78	\$3.12	(\$0.51)	\$1.96	\$4.54
Location:						
Urban	293	\$0.67	\$2.03	(\$1.92)	\$1.78	\$3.38
Rural	72	\$0.33	\$2.01	(\$1.76)	\$1.56	\$3.67
Out of State	22	\$3.67	\$4.17	\$0.89	\$2.76	\$5.45
Annual Total Rx Volume:						
0 to 24,999	46	(\$7.01)	(\$4.31)	(\$12.43)	(\$3.69)	\$0.52
25,000 to 49,999	95	\$0.21	\$0.36	(\$2.96)	(\$0.25)	\$2.46
50,000 to 74,999	89	\$1.25	\$1.29	(\$0.41)	\$1.48	\$2.69
75,000 to 99,999	53	\$3.11	\$3.12	\$1.63	\$2.74	\$3.88
100,000 and Higher	104	\$3.14	\$3.13	\$2.00	\$3.15	\$4.17

Excludes specialty pharmacies and pharmacies that did not report cost of goods sold.